THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in New City (China) Development Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular sets out the information with respect to the very substantial acquisition and is for information only and does not constitute an intention or offer to acquire, purchase or subscribe for any securities.

NEW CITY (CHINA) DEVELOPMENT LIMITED
新 城 市（中 國）建 設 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0456)

(1) VERY SUBSTANTIAL ACQUISITION —

ACQUISITION OF THE MAJORITY EQUITY INTEREST IN A COMPANY INVOLVING POSSIBLE ISSUANCE OF SETTLEMENT SHARES

(2) VERY SUBSTANTIAL DISPOSAL —

GRANT OF BUY BACK OPTION

(3) REVISION OF TERMS OF 2005 CONVERTIBLE BOND

(4) ISSUE OF NEW CONVERTIBLE BOND IN THE PRINCIPAL AMOUNT OF HK$5,304,297

(5) EXTENSION OF MATURITY DATES OF 2007 CONVERTIBLE BONDS

AND

(6) INCREASE IN AUTHORIZED SHARE CAPITAL

A letter from the board of directors of New City (China) Development Limited is set out on pages 6 to 36 of this circular.

A notice convening the extraordinary general meeting of New City (China) Development Limited to be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on 18 March 2008 at 3:00 p.m. is set out on pages 156 to 159 of this circular. If you are unable to attend the extraordinary general meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon. In order to be valid, the proxy form must be deposited by hand or post to the Company's Hong Kong branch share registrar, Union Registrars Limited, Rooms 1901-1902, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the extraordinary general meeting or adjourned meeting or not less than 24 hours before the time appointed for taking the poll (as the case may be). If the proxy form is signed by a person under a power of attorney or other authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the extraordinary general meeting or any adjournment thereof should you so wish.

29 February 2008

CONTENTS

Pages

DEFINITIONS

In this circular, unless the context otherwise requires, the following words and expressions have the following meanings:

"2005 Convertible Bond"	the convertible bond in the principal amount of HK$12 million issued by the Company on 1 March 2005 as described in the announcement of the Company dated 3 March 2005;
"2007 Convertible Bonds"	two convertible bonds in the principal amounts of HK$33,403,150 and HK$23,055,000 respectively issued by the Company on 14 June 2007 and 28 June 2007 respectively as described in the announcements of the Company dated 15 June 2007 and 29 June 2007 respectively;
"Acquisition"	the acquisition of the Sale Equity Interest by the Company pursuant to the Agreement;
"Agreement"	the agreement dated 15 August 2007 entered into between the Company and the Vendor relating to the sale and purchase of the Sale Equity Interest;
"Announcement"	the announcement relating to, among other things, the Acquisition, revision of terms of 2005 Convertible Bond, issue of New Convertible Bond and extension of maturity dates of 2007 Convertible Bonds dated 11 December 2007 issued by the Company;
"Board"	the board of Directors of the Company;
"Buy Back Option"	the option of the Vendor to buy back the commercial part of the building complex to be constructed on the Land at a price of RMB9,000 per square meter pursuant to the Memorandum of Cooperation;
"Company"	New City (China) Development Limited;
"Conditions Precedent"	the conditions precedent to the completion of the Agreement;
"Consideration"	the total consideration for the sale and purchase of the Sale Equity Interest in the sum of RMB10,924,000;

"Consideration Debt"	the amount of the outstanding Consideration other than the deposit owed by the Company to the Vendor under the Agreement;
"Crown Champion"	Crown Champion Investments Limited, the subscriber of the 2007 Convertible Bonds;
"Director"	a directors of the Company and "Directors" include all directors of the Company;
"EGM"	an extraordinary general meeting of the Company to be convened for approving, among other things, the Agreement, revision of terms of 2005 Convertible Bond, issue of New Convertible Bond and extension of maturity dates of 2007 Convertible Bonds and the transactions contemplated thereunder;
"Equity Joint Venture Contract"	the equity joint-venture contract to be entered into by the Company, the Vendor and Mr. Yang in respect of the Target Company;
"Group"	the Company and its subsidiaries;
"HK$"	Hong Kong Dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Independent Shareholders"	Shareholders other than (i) Mr. Han and New Rank Groups Limited and (ii) those who are involved in, or interested in, the 2007 Convertible Bonds;
"Independent Third Party"	a third party independent of the Company and its connected persons (as defined in the Listing Rules);
"Land"	an undeveloped land located at Qin Huang Dao, He Bei Province, the PRC, namely 秦皇島灣海項目的3號項目(Item 3 of Qin Huang Dao Wan Hai Project#), which is situate on the south of 西白塔嶺村河北大街(Xi Bai Ta Ling Village He Bei Main Street#);

"Land Consideration"	the consideration for the transfer of the land from the Vendor to the Target Company payable by the Target Company to the Vendor pursuant to the Agreement as supplemented by the Memorandum of Cooperation;
"Latest Practicable Date"	28 February 2008 being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Memorandum of Cooperation"	the memorandum of cooperation dated 12 September 2007 entered into between the Company and the Vendor supplemental to the Agreement;
"Mr. Yang"	楊中民 (Yang Zhong Min#), who is currently owning 10% of the share capital of the Target Company and a Independent Third Party;
"New Convertible Bond"	the new convertible bond issued in accordance with the New Subscription Agreement;
"New Conversion Shares"	the Shares to be issued by the Company upon conversion of the New Convertible Bond;
"New Subscription Agreement"	the subscription agreement dated 21 August 2007 entered into between the Company and Tritime for issuance of a new convertible bond in the principal amount of HK$5,304,297 to Tritime;
"Parties"	the parties to the Agreement, namely the Company and the Vendor;
"Poly Corporation"	China Poly Group Corporation (中國保利集團公司);
"Poly HK"	Poly (Hong Kong) Investments Limited (formerly known as Continental Mariner Investment Company Limited);

"PRC"	the People's Republic of China and for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
"Prime Rate"	the prime lending rate from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollar deposits;
"Property Valuer"	Asset Appraisal Limited, an independent property valuer giving its assessment of the value of the Land;
"Rental Debt"	the rental payment liable to be paid by Yin Di to Zhong Zheng under the Tenancy Agreement;
"Rental Property"	part of office premises situate at 13/F, Block C of 北京招商國際金融中心 (China Merchant Beijing International Financial Building#) at Finance Street, Beijing with an area of 832.61 square meters;
"RMB"	renminbi yuan, the lawful currency of the PRC;
"Sale Equity Interest"	51% of the total equity interest in the Target Company to be sold and purchased pursuant to the Agreement;
"Settlement Shares"	54,000,000 Shares which may be issued at a price of HK$0.27 each to the Vendor pursuant to the Memorandum of Cooperation;
"SFC"	the Securities and Futures Commission;
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong;
"Shareholders"	holders of Shares;
"Shares"	ordinary share(s) of HK$0.001 each in the share capital of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers;

"Target Company"	秦皇島海洋西嶺房地產開發有限公司 (Qin Huang Dao Ocean West Hill Real Property Development Company Limited#), a company incorporated in the PRC and validly existing under the laws of the PRC, 90% and 10% of the total equity interest of which are currently owned by the Vendor and Mr. Yang respectively;
"Tenancy Agreement"	the tenancy agreement which may be entered into between Zhong Zheng and Yin Di in respect of the renting of the Rental Property;
"Tong Sun Debt"	the inter-companies loan owed by Tong Sun to the Company;
"Tritime"	Tritime Holdings Limited, the subscriber of the 2005 Convertible Bond;
"Valuation Report"	the valuation report dated 28 February 2008 issued by the Property Valuer which is set out in Appendix III;
"Vendor"	秦皇島市海洋置業有限公司 (Qin Huang Dao City Ocean Realty Company Limited#), a company incorporated in the PRC and validly existing under the laws of the PRC;
"Vendor's Property Valuer"	the property valuer appointed by the Vendor, namely 北京京城捷信房地產評估公司 (Beijing Jing Cheng Jie Xin Real Property Valuation Company#);
"Whitewash Waiver"	a waiver of the obligation of Crown Champion and persons acting in concert with it to make a mandatory offer for all the Shares not already owned or agreed to be acquired by them under Note 1 on Dispensation from Rule 26 of the Takeovers Code in respect of full conversion of the 2007 Convertible Bonds;
"Yin Di"	中國銀地城市投資有限公司 (China Yin Di City Investment Company Limited#), a subsidiary of the Vendor;
"Zhong Zheng"	北京中証房地產開發有限公司 (Beijing Zhong Zheng Real Estate Development Co. Ltd.#), a subsidiary of the Company; and
"Zhong Zheng Debt"	the inter-companies loan owed by Zhong Zheng to Tong Sun.

The exchange rate of HK$1.00 to RMB0.96 is used throughout this circular for illustration purposes. No representation is made as to whether RMB has been/can be converted into HK$ at such rate or any other rate.

#: *an unofficial English transliteration on translation for identification purposes only*

NEW CITY (CHINA) DEVELOPMENT LIMITED
新 城 市 (中 國) 建 設 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0456)

Executive Directors:
Mr. Han Junran *(Chairman)*
Mr. Fu Yiu Kwong

Independent Non-Executive Directors:
Mr. Chan Yiu Tung Anthony
Mr. Wong Shing Kay Oliver
Mr. Zheng Qing

Registered office:
Scotia Centre, 4th Floor,
P.O. Box 2804, George Town,
Grand Cayman, Cayman Islands

Principal place of business:
Units 2804-06, 28/F, Cosco Tower,
Grand Millennium Plaza,
183 Queen's Road Central,
Hong Kong

29 February 2008

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION —

ACQUISITION OF THE MAJORITY EQUITY INTEREST IN A COMPANY INVOLVING POSSIBLE ISSUANCE OF SETTLEMENT SHARES

(2) VERY SUBSTANTIAL DISPOSAL —

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AND

(6) INCREASE IN AUTHORIZED SHARE CAPITAL

INTRODUCTION

In the Announcement, the Board announced that:—

(1) The Company entered into the Agreement with the Vendor on 15 August 2007 to purchase the Sale Equity Interest.

(2) The Company also entered into the Memorandum of Cooperation supplemental to the Agreement with the Vendor on 12 September 2007 in relation to the determination of the Consideration, methods of payment and related matters.

(3) Pursuant to the Memorandum of Cooperation, and as agreed between the Parties, for the purpose of settlement of the outstanding amount of the Consideration, the Company may request to enter into the Tenancy Agreement by which Zhong Zheng shall let, and Yin Di shall rent, the Rental Property and there will be arrangements for setting off all the outstanding amount of the Consideration other than the deposit paid against the rental payable under the Tenancy Agreement.

(4) Upon the Company becoming the beneficial owner of the Sale Equity Interest, Yin Di will become a connected person of the Company. The Tenancy Agreement, which may be entered into between Zhong Zheng and Yin Di, will constitute a continuing connected transaction of the Company. The Company will comply with the requirements under Chapter 14A of the Listing Rules including the disclosure and independent shareholders' approval requirements once the Tenancy Agreement is entered into.

(5) Under the Agreement, upon payment of the deposit, the Vendor shall transfer the Land to the Target Company. Under the Memorandum of Cooperation, the Land Consideration shall be settled by (i) issuance of the Settlement Shares on satisfaction of certain pre-conditions, (ii) setting off with the consideration payable by the Vendor in respect of the Buy Back Option, and (iii) future surplus cash of the Target Company.

(6) The Settlement Shares, if and when issued by the Company, will comprise 54,000,000 Shares to be issued at a price of HK$0.27 each to the Vendor at a total consideration of HK$14,580,000.

(7) Completion of the sale and purchase of the Sale Equity Interest is subject to the Conditions Precedent.

(8) As the transactions under the Agreement as supplemented by the Memorandum of Cooperation constitute a very substantial acquisition and the grant of Buy Back Option constitutes a very substantial disposal of the Company under the Listing Rules, the Agreement and the transaction contemplated thereunder (including the transfer of the Land to the Target Company, the issuance of the Settlement Shares and the grant of the Buy Back Option) are subject to the approval of the Shareholders in the EGM. The Company will convene an EGM to seek such approval.

(9) The Company has agreed with Tritime to further extend the maturity date of the 2005 Convertible Bond to 28 February 2009. In respect of the remaining amount of HK$5,219,480 out of the principal of the 2005 Convertible Bond together with its accrued interest, the Company entered into a subscription agreement dated 21 August 2007 with Tritime for issuance of a new convertible bond in the principal amount of HK$5,304,297 to Tritime.

(10) The Directors will seek to obtain approval from Shareholders at the EGM for the revision of the terms of the 2005 Convertible Bond and the issuance of the New Conversion Shares.

(11) The Company has agreed with Crown Champion to extend the maturity dates of the 2007 Convertible Bonds to 28 February 2009. The extension of the 2007 Convertible Bonds shall be approved in the EGM.

(12) The authorized share capital of the Company shall be increased such that the Company shall have sufficient authorized but unissued share capital for issuance of the Settlement Shares and the New Conversion Shares. The increase in authorized share capital shall be approved in the EGM.

The purpose of this circular is to provide you with further details of the Agreement and the Acquisition contemplated thereunder, revision of terms of 2005 Convertible Bond, issue of New Convertible Bond and extension of maturity dates of 2007 Convertible Bonds and other information in compliance with the requirements of the Listing Rules.

VERY SUBSTANTIAL ACQUISITION AND VERY SUBSTANTIAL DISPOSAL

THE AGREEMENT AS SUPPLEMENTED AND AMENDED BY THE MEMORANDUM OF COOPERATION

Date

The Agreement – 15 August 2007

The Memorandum of Cooperation – 12 September 2007

Parties

(i) the Vendor, 秦皇島市海洋置業有限公司 (Qin Huang Dao City Ocean Realty Company Limited#), a company incorporated in the PRC, as the vendor; and

(ii) the Company, as the purchaser.

The ultimate beneficial owner of the Vendor is Mr. Yang. The Vendor is principally engaged in the business of property development of various sites in Qin Huang Dao, He Bei Province, the PRC, one of which is the Land.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are Independent Third Parties and none of them holds any Shares.

Purchase of Sale Equity Interest

Pursuant to the Agreement, the Vendor has agreed to sell and the Company has agreed to purchase, subject to fulfillment of the Conditions Precedent, the Sale Equity Interest, representing 51% of the total equity interest of Target Company held by the Vendor.

Upon completion of the Agreement, the Target Company will be treated as a subsidiary of the Group and the accounts of the Target Company will be consolidated into the consolidated accounts of the Group.

Consideration

Pursuant to the Memorandum of Cooperation, the consideration of the Sale Equity Interest was agreed by the Parties as RMB10,924,000 (equivalent to approximately HK$11,379,000).

The Target Company has a registered capital of RMB5,000,000 (equivalent to approximately HK$5,208,000). Before the transfer of the Land from the Vendor, the Target Company has no business activities and its net asset value is RMB5,000,000 (equivalent to approximately HK$5,208,000) as at 31 October 2007. The Consideration was determined on the basis of applying a premium of about RMB8,382,000 (equivalent to approximately HK$8,731,000) to 51% of the net asset value of the Target Company, in view of the future development potential of the Land injected by the Vendor into the Target Company as a building complex consisting of a commercial complex at the lower part and residential apartments at the upper part, details of which are stated under the section "Development Plan of the Land" below.

Payment of deposit and Consideration

Pursuant to the Agreement, the Company shall pay the deposit in the sum of HK$1,000,000 to the Vendor upon signing of the Agreement, and upon payment of the deposit, the Vendor shall transfer the Land to the Target Company. The deposit was paid by the Company to the Vendor on 12 September 2007 as agreed upon finalization of the terms of the Memorandum of Cooperation and the opening of an offshore account by the Vendor for the payment.

Pursuant to the Memorandum of Cooperation and as agreed between the Parties, for the purpose of settlement of the outstanding amount of the Consideration, the Company may request to enter into the Tenancy Agreement by which Zhong Zheng shall let, and Yin Di shall rent, the Rental Property and there will be arrangements for setting off all the outstanding amount of the Consideration other than the deposit paid against the rental payable under the Tenancy Agreement.

Under the Agreement, the Company will owe the Consideration Debt to the Vendor. Under the Tenancy Agreement, Yin Di will owe the Rental Debt to Zhong Zheng. There are inter-companies loans owed by Zhong Zheng to Tong Sun and by Tong Sun to the Company respectively. By the arrangements of setting off, the Vendor will waive the Consideration Debt in consideration of Zhong Zheng waiving the same amount of the Rental Debt. In consideration of Zhong Zheng doing so, Tong Sun will waive the same amount of Zhong Zheng Debt. In consideration of Tong Sun doing so, the Company will waive the same amount of Tong Sun Debt. As a result, all the Rental Debt, Zhong Zheng Debt and Tong Sun Debt will be waived for the same amount as the Consideration Debt at the same time by such arrangements.

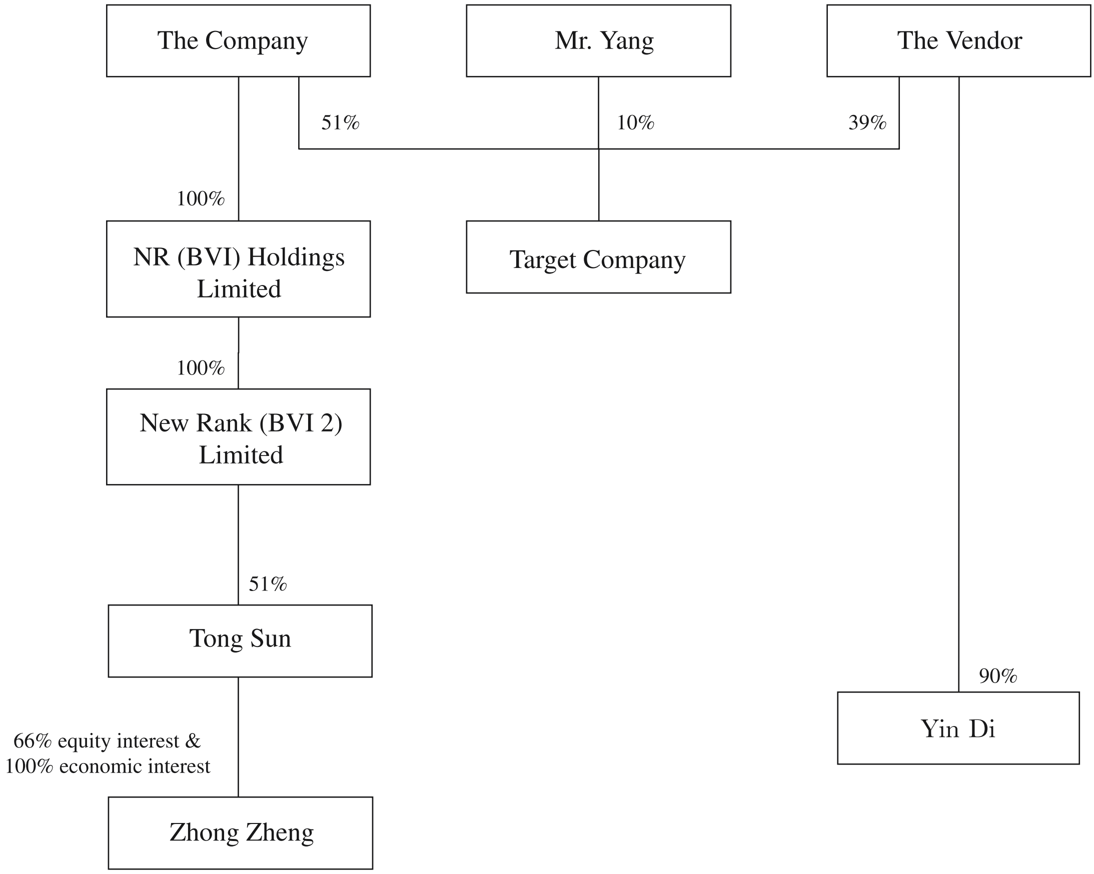
All direct and indirect shareholders of Zhong Zheng are aware of and agree to the above described arrangements for setting off of the various debts.

No agreement or memorandum of understanding had yet been entered into between Yin Di and Zhong Zheng in relation to the Rental Property. Upon approval of the Agreement as supplemented by the Memorandum of Cooperation in the EGM, if the Company chooses to enter into the Tenancy Agreement, it is the common intention of the Parties that the expected monthly rent will be RMB300 (equivalent to approximately HK$312.5) per square meter which is based on the prevailing market rent. There will be 2 months of rent free period for the first year and 3 months of rent free period each year from the second year onwards. Based on the total area of 832.61 square meters of the Rental Property, the total yearly rental payable for the first year will be approximately RMB2,498,000 (equivalent to approximately HK$2,602,000) and for the second year onwards will be approximately RMB2,248,000 (equivalent to approximately HK$2,341,000). The other terms of the Tenancy Agreement will be in normal commercial terms. It is the common intention that Zhong Zheng and Yin Di will enter into an initial Tenancy Agreement for 3 years.

It is expected that such rental payable over a period of about 5 years will be used to set off all the outstanding Consideration, upon which the Company will fully settle all of its liability to the Vendor in respect of the outstanding Consideration and the Vendor will deem to have fully received all the outstanding Consideration.

The Rental Property is part of the Consideration Property as defined in the circular of the Company dated 27 November 2006 and its current title owner is China Network Communications Group Corporation which is the Other Party as defined therein. The legal title of the Rental Property has not been transferred to Zhong Zheng. However, based on a PRC legal opinion, Zhong Zheng has already had the right to let the Rental Property and is entitled to the rental income. Therefore, the Rental Property has been treated as an asset of the Group as investment properties.

The relationship among the Company, the Vendor, the Target Company and Yin Di after completion of the Agreement are set out in the following chart:—



Upon the Company becoming the beneficial owner of the Sale Equity Interest, Yin Di will become a connected person of the Company. The Tenancy Agreement, which may be entered into between Zhong Zheng and Yin Di, will constitute a continuing connected transaction of the Company. The Company will comply with the requirements under Chapter 14A of the Listing Rules including the disclosure and independent shareholders' approval requirements once the Tenancy Agreement is entered into.

The Company considers that the arrangements are beneficial to the Company as no cash payment would be required for the outstanding amount of the Consideration from the Company. Besides, Zhong Zheng can secure a tenant for the Rental Property.

Upon agreement on the major terms of the sale and purchase of the Sale Equity Interest, the Company entered into the Agreement with the Vendor to secure the transaction. The detailed terms of payment of the Consideration by the Company to the Vendor had not been finalized on signing of the Agreement. The Parties required further time to work out such details after signing of the Agreement and meetings for agreement and finalization of such details had to be held in Qin Huang Dao, the PRC with the management of the Vendor. After further negotiation, such detailed terms were only finalized as provided for in the Memorandum of Cooperation on 12 September 2007. Before such date, the Company considered that it could not provide full details of the negotiated terms of acquisition of the Sale Equity Interest in a draft announcement to the Stock Exchange. Therefore, the Company only made submission of the draft of the Announcement to the Stock Exchange in mid-September 2007. Accordingly, the Company has delayed in submitting the draft Announcement relating to the Agreement to the Stock Exchange as required under Rule 14.34 of the Listing Rules.

Transfer of the Land to the Target Company

The present owner of the Land is the Vendor.

Valuation of the Land had been made by two property valuers. The valuation made by the Vendor's Property Valuer on 6 August 2007 by the methods of net valuation and market comparison is RMB242,650,000 (equivalent to approximately HK$252,760,000) whereas that made by the property valuer appointed by the Company, Asset Appraisal Limited, on 12 November 2007 is RMB230,000,000 (equivalent to approximately HK$239,583,000) by comparison method on the basis that the valuation represents the market value which means the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. The property valuer of the Company had provided the valuation of the Land and the draft valuation report to the Company before the entering into of the Memorandum of Cooperation. They only issued the formal valuation report on 12 November 2007 which is substantially the same as the draft previously provided. In particular, the valuation of the Land is the same. Based on those valuations and by the Memorandum of Cooperation, the Parties reached an agreed valuation of the Land at RMB238,000,000 (equivalent to approximately HK$247,917,000), and by adopting a 10% agreed discount after commercial negotiation, the Land Consideration is agreed as RMB214,200,000 (equivalent to approximately HK$223,125,000).

The above property valuers and their respective ultimate beneficial owners are third parties independent of the Company, the Vendor and the Target Company and their respective connected persons (as defined in the Listing Rules).

Under the Memorandum of Cooperation, it was agreed that the Land Consideration shall be RMB214,200,000.

It was also agreed that the Land Consideration shall be settled as follows:

(i) Upon the relevant authorities approving the borrowing of foreign loan by the Target Company, the Company shall issue 54,000,000 Shares at a price of HK$0.27 each to the Vendor in partial settlement of the Land Consideration and the Target Company shall owe an amount of HK$14,580,000, being the equivalent value of such Shares, to the Company. For details, please refer to the below section "Possible Issuance of Settlement Shares".

(ii) Upon completion of the construction of the commercial part of the Land, the Vendor shall have an option to buy back such commercial part at a price of RMB9,000 (equivalent to approximately HK$9,375) per square meter. The consideration for buying back payable by the Vendor shall be utilized to set off the outstanding Land Consideration payable by the Target Company. For details, please refer to the below section "Buy Back Option".

(iii) The Target Company shall use any future surplus cash as cash payment for settlement of any outstanding Land Consideration payable by it.

As stated in the section headed "Development Plan of the land", completion of construction of the building complex on the land is expected to be about the middle of 2009. The full amount of the Land Consideration shall only be required to be settled after completion of the construction, and cash payment as mentioned in (iii) above, if required, shall only be required to be made then.

Possible Issuance of the Settlement Shares

Parties involved in the possible issuance of the Settlement Shares

(i) the Company, which will be the issuer of the Settlement Shares;

(ii) the Vendor, to which the Settlement Shares will be issued; and

(iii) the Target Company

Please refer to the sections "Information on the Vendor" and "Reasons for and Benefits of the Acquisition" for the principal business activities of the Company and the Vendor. The Target Company is a company incorporated in the PRC in 2005 and carries on no business activity since then.

Pre-Conditions

As the Target Company is a company incorporated in the PRC and is subject to restrictions on borrowing of foreign loan, the issuance of the Settlement Shares is subject to, and the Settlement Shares will only be issued upon, the relevant authorities in the PRC approving the borrowing of foreign loan by the Target Company.

Shareholders and investors are advised that the relevant authorities in the PRC may or may not approve the borrowing of foreign loan by the Target Company and thus the Settlement Shares may or may not be issued.

The Settlement Shares will only be issued to the Vendor upon resumption of trading of the Shares.

Terms

The Settlement Shares, if and when issued by the Company, will comprise 54,000,000 Shares to be issued at a price of HK$0.27 each to the Vendor at a total consideration of HK$14,580,000. Such issue price, which was determined after commercial negotiation, represents (i) a premium of 1.89% to the closing price of HK$0.265 per Share as quoted on the Stock Exchange on 29 December 2003, the day immediately preceding the suspension of trading of the Shares, (ii) a premium of 1.89% to the 5 days average closing price per Share of HK$0.265 before suspension, and (iii) a premium of 107.69% to the net asset value per Share of HK$0.13 as at 30 June 2007. The total number of the Settlement Shares represents approximately 19.87% of the existing issued share capital of the Company and approximately 16.58% of the issued share capital of the Company as enlarged by the issue of them. The Vendor shall settle the consideration by transferring a same amount of the debt owed by the Target Company, being part of the Land Consideration, to the Company, as a result of which the Target Company will owe an amount of HK$14,580,000 to the Company. The Company cannot estimate when the approval of the relevant authorities in the PRC for the borrowing of foreign loan by the Target Company will be given. Therefore, it would not be able to estimate the expected date for issuance of the Settlement Shares.

The Settlement Shares, if and when issued, will rank pari passu in all respects with the existing Shares. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Settlement Shares. There will be no change of control of the Company as a result of the issuance of the Settlement Shares.

Buy Back Option

Parties involved in the Buy Back Option

(i) the Target Company, the grantor of the Buy Back Option; and

(ii) the Vendor, the grantee of the Buy Back Option

Grant of Buy Back Option

It is intended that a building complex will be built on the Land, which will consist of a commercial complex at the lower part and residential apartments at the upper part. It is expected that the total area of the commercial complex and the whole building complex will be about 30,000 and 114,700 square meters respectively.

It is provided under the Memorandum of Cooperation that upon completion of the construction of the commercial part of the Land, the Vendor shall have an option to buy back such commercial part at a price of RMB9,000 (equivalent to approximately HK$9,375) per square meter, which is based on a 10% discount on the selling price as projected by the Vendor, which is estimated to be RMB10,000 (equivalent to approximately HK$10,417) per square meter based on the estimated valuation made on 6 August 2007 by the methods of market comparison by the Vendor's Property Valuer. The discount was determined in line with the discount to the Land Consideration. Completion of construction of the building complex is expected to be about the middle of 2009. It is expected that the Buy Back Option, if exercised by the discretion of the Vendor, would be exercised shortly after the completion of construction when the sale of the commercial units commence. Based on the belief of the Directors that there should not be material change to the market conditions at the expected time of exercise of the Buy Back Option as it would happen only more than 1 year from now on, which period could be considered a relatively short period in respect of the relevant property market, the Director are of the view that the basis for determining such selling price is fair and reasonable and believe that it represent the market price of the commercial part at the time of exercise of the Buy Back Option. The total aggregate consideration payable by the Vendor upon full exercise of the Buy Back Option will be about RMB270,000,000 (equivalent to approximately HK$281,250,000). The Vendor shall have the discretionary power to exercise the Buy Back Option.

The above principal terms of the Buy Back Option are provided for in the Memorandum of Cooperation.

The consideration payable by the Vendor in respect of the Buy Back Option will be set off by any outstanding Land Consideration. Any consideration payable by the Vendor under the Buy Back Option not utilized for such setting off will be paid by the Vendor to the Target Company, which will be used as the operating cash for future development of the Target Company.

Upon exercise of the Buy Back Option, there will expect to be a gain of about RMB100,000,000 (equivalent to approximately HK$104,167,000) by deducting the estimated costs of sale (calculated by the average cost method and as provided by the Vendor, based on the valuation by the Vendor's Property Valuer according to costs of materials and construction of similar properties, and agreed by the Directors) and applicable taxes from the total proceeds receivable by the Target Company. Such gain will fully be accrued to the Group.

It is the mutual understanding between the Parties that the Buy Back Option shall not be transferable, shall be exercisable within 1 month upon issuance of 房產證 (Certificate of Ownership of Property) of the commercial complex, shall be exercised in full (i.e. for the whole of the commercial complex, but not only part thereof) if being exercised, and the amount payable thereunder by the Vendor shall be paid within 1 month after notice of its exercise. These terms are not provided for in the Memorandum of Cooperation. However, it is the common intention of the Parties that such terms will be agreed upon after approval of the Buy Back Option by the Shareholders in the EGM.

As the grant of the Buy Back Option constitutes a very substantial disposal of the Company under the Listing Rules 14.74(1) (as the consideration ratio thereof exceeds 75%), it is subject to the approval of the Shareholders in the EGM. The Company will convene an EGM to seek such approval.

The Company will issue an announcement including further information on the Land and the development of the building complex and the basis of the consideration of the Buy Back Option, and will seek Shareholders' approval where necessary on the exercise, non exercise or termination of the Buy Back Option as soon as reasonably practicable under Listing Rules 14.74(2).

The future possible exercise of the Buy Back Option may constitute a connected transaction under Rule 14A.68 of the Listing Rules. The Company will comply with the relevant requirements in Chapters 14A of the Listing Rules, if applicable, when the Buy Back Option will or will be about to be exercised.

Upon termination of the Buy Back Option, the Company with comply with the relevant requirements in Chapters 14 and 14A of Listing Rules, if applicable.

The proportion of settlement of the Land Consideration among the above 3 methods (namely the issuance of the Settlement Shares, the exercise of the Buy Back Option and settlement by future surplus cash) has not been provided for in the Memorandum of Cooperation. As stated above, issuance of the Settlement Shares would only be proceeded with upon satisfaction of the pre-conditions. The Buy Back Option can only be exercised upon completion of construction of the commercial part of the Land and the total aggregate consideration payable by the Vendor (approximately RMB270,000,000 (equivalent to approximately HK$281,250,000)) would be sufficient for setting off the total Land Consideration. Before the exercise of the Buy Back Option or should there be any remaining amount of the Land Consideration not paid, the Target Company may use any future surplus cash to settle the Land Consideration.

Neither the Company nor the Target Company is required to pay any interest or penalty in respect of the deferred payment of the Land Consideration.

Development Plan of the Land

It is intended that a building complex will be built on the Land, which will consist of a commercial complex at the lower part and residential apartments at the upper part. The Land will be treated as current assets of the Group. It is intended that the commercial complex and the residential apartments will be disposed of after completion of construction.

In respect of the expected schedule of development of the Land, the design of the building has been finalized and the detailed development plan had been submitted to the relevant PRC authorities for review. Formal approval is expected to be obtained in early March 2008. The construction of the building complex will start after such approval. Starting January 2008, deposits had been received from intended buyers of the residential units in the total amount of approximately RMB9,460,000 (equivalent to approximately HK$9,854,000) up to 31 January 2008. Sale of the commercial units is expected to commence after completion of construction of the building complex which is expected to be about the middle of 2009. All the units in the building complex are expected to be sold by September 2009.

The estimated construction costs of the buildings complex is expected to be about RMB249,920,000 (equivalent to approximately HK$260,333,333). Costs of development of the Land and operations of the Target Company will be financed by deposits to be received from intended buyers of the residential units. The Target Company started to receive deposits from such intended buyers since January 2008, with an estimated amount of at least RMB10,000,000 (equivalent to approximately HK$10,417,000) per month. The construction of the building complex is expected to start in March 2008 and the Target Company will only have to pay for the costs of construction when they are due after the expiry of the respective credit periods granted by suppliers some time thereafter. Therefore, the deposits to be received from the intended buyers should be sufficient for the Target Company to finance the development project.

The Parties will cooperate in the operation of the Target Company. The Company will mainly be responsible for selection of construction vendors and materials, financial management and control, and monitoring of sales and marketing process. The Vendor will mainly be responsible for liaison with relevant government authorities and execution of sales and marketing process.

Conditions Precedent

Completion of the sale and purchase of the Sale Equity Interest is subject to the following conditions, to be satisfied within 12 months from the date of the Agreement:

1. agreement by the Parties on the terms of the Equity Joint Venture Contract of the Target Company within 14 days from the day of the Agreement;

2. satisfaction by the Company of the financial, legal, tax and commercial aspects of the Target Company, including the clearing up of and obtaining of the land use certificate in respect of the Land;

3. approval or waiver by the Stock Exchange of the issuance by the Company of a circular to the Shareholders in respect of the Agreement and the transactions contemplated thereunder;

4. approval by the Shareholders of the Agreement and approval by the Shareholders to enter into the Equity Joint Venture Contract and the transaction contemplated thereunder in accordance with the memorandum and articles of association of the Company and the Listing Rules;

5. obtaining of all consents necessary in law from third parties;

6. the Vendor having fully complied with its representations and warranties under the Agreement;

7. the Vendor having fully completed the procedures in law for transferring the Sale Equity Interest to the Company;

8. the Vendor having provided its board resolutions approving the transfer of Sale Equity Interest to the Company;

9. Mr. Yang having given written consent in accordance with the memorandum and articles of association of the Target Company waiving his pre-emption rights to purchase the Sale Equity Interest;

10. the Vendor having completed the valuation of the Sale Equity Interest, and having applied and obtained approval for transfer of the Sale Equity Interest from the relevant authorities in accordance with the laws in the PRC;

11. the Vendor having completed all other necessary procedures and obtained all other necessary documents for the transfer of the Sale Equity Interest;

12. the Vendor having signed an undertaking to waive the Company of the debts of the Target Company before the date of completion of the Agreement and tax liabilities arising from the transfer of the Sale Equity Interest;

13. the Vendor having completed all procedures required by the supervising department and registration for the sino-foreign equity joint venture; and

14. the legal adviser of the Company having issued legal opinion confirming that all the above documents provided are all true and correct, all transactions under the Agreement are legally effective and binding on all parties.

As at the Latest Practicable Date, the Conditions Precedent nos. 1 and 3 had been fulfilled or waived.

As obtaining of the land use certificate in respect of the Land by the Target Company is one of the Conditions Precedent, the transfer of the Land is required to be completed within 12 month from the date of the Agreement.

Upon completion of the Agreement, the Target Company will become an equity joint venture jointly held by the Company, the Vendor and Mr. Yang, which will together enter into the Equity Joint Venture Contract. The Equity Joint Venture Contract has not been entered into and will be entered into upon completion of the Agreement. Accordingly, the Parties had agreed to waive the above Condition Precedent 1 (i.e. “agreement by the Parties on the terms of the Equity Joint Venture Contract of the Target Company within 14 days from the day of the Agreement”). The Equity Joint Venture Contract is one of the requirements contemplated under the Agreement and will be approved by the Shareholders as part of the transaction contemplated under the Agreement.

The intended major terms of the Equity Joint Venture Contract are as follows:

(i) Parties to the Equity Joint Venture Contract will be the Company, the Vendor and Mr. Yang.

(ii) The purpose of the Target Company is to develop the Land and engage in other future property development.

(iii) The total registered capital will be RMB5,000,000, which will be owed as to 51%, 39% and 10% by the Company, the Vendor and Mr. Yang respectively.

(iv) The responsibilities of the parties are : the Vendor is responsible for provision of the Land and the Company will be responsible for management of the property to be built on the Land.

(v) 3 directors will be nominated by the Company and 2 directors by the Vendor.

(vi) The general manager will be nominated by the Company and the deputy general manager will be nominated by the Vendor.

(vii) The profit sharing ratio will be in accordance with the respective shareholding ratio of the shareholders.

The grant of the Buy Back Option and the issuance of the Settlement Shares, which are two of the methods for settlement of the Land Consideration, are conditional upon transfer of the Land.

The Company will seek the approval of the Shareholders at the EGM for the grant of Buy Back Option as part of the transactions contemplated under the Agreement as supplemented by the Memorandum of Cooperation. As it is one of the Conditions Precedent for the Shareholders to approve the Agreement and the transactions contemplated thereunder, if this is not approved, the Agreement will not be completed.

The granting of listing approval by the Stock Exchange for the issuance of the Settlement Shares is not provided as one of the Conditions Precedent.

As disclosed above, the long stop date for the Agreement is 12 months from the date of the Agreement. No long stop date is provided for in the Agreement in respect of the transfer of the Land. However, as one of the Conditions Precedent is the obtaining of the land use certificate in respect of the Land by the Target Company, the transfer of the Land should be completed before the long stop date for the Agreement, i.e. 12 months from the date thereof.

Under the Agreement, the Company may by notice in writing waive any of the Conditions Precedent. However, the Company will not waive Conditions Precedent (3) and (4). If any of the Conditions Precedent has not been fulfilled (or waived) on or before the relevant date required for fulfilling the same, the Agreement shall automatically terminate and no party shall have any claim of any nature whatsoever against the other party under the Agreement and the Vendor shall refund any amount of the Consideration paid to the Company within 14 working days.

Completion

Completion of the Agreement shall take place upon the Conditions Precedent being satisfied, fulfilled and/or waived.

Other Material Terms

If approval by the Stock Exchange of the issuance by the Company of a circular to the Shareholders in respect of the Agreement and the transactions contemplated thereunder has not been obtained and the circular has not been issued on or before 29 February 2008, the Vendor shall have the right to continue or not to continue the transactions under the Agreement. Upon the Vendor choosing not to continue, the Agreement shall be terminated automatically.

It had been agreed between the Parties that the Company may request the Vendor to transfer the Sale Equity Interest to any person nominated or designated by the Company. It is intended that the Sale Equity Interest will be transferred to Mr. Han Junran, an executive Director and chairman of the Company, who will hold such interest in trust for the Company.

INFORMATION ON THE VENDOR

The Vendor is principally engaged in the business of property development of various sites in Qin Huang Dao, He Bei Province, the PRC, one of which is the Land.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in property development in the PRC. Through the acquisition of the majority equity interest in the Target Company which will wholly own the Land for property development, the Group intends to further the business of property development in the PRC which is in line with its principal business and that the asset base of the Group will be improved.

Acquisition of interest of the Land through the Target Company constitutes ordinary course of business of the Group who engages in property development in the PRC. Through the arrangements provided for in the Agreement as supplemented by the Memorandum of Cooperation, the Group needs to pay only a relatively small amount of cash, i.e. HK$1,000,000, as deposit to acquire the Sale Equity Shares, which will not have significant impact on the cashflow of the Group.

The Directors, including the independent non-executive Directors, consider that the terms of the Agreement, including the grant of the Buy Bank Option, are fair and reasonable and to the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION AND THE BUY BACK OPTION

Following completion of the Acquisition, Target Company will become a 51% owned-subsidiary of the Group.

Set out in Appendix IV to this circular is certain unaudited pro forma financial information of the Group illustrating the financial impact of the completion of the Acquisition and cash flows of the Group assuming the completion of the Acquisition had taken place on 1 January 2006 and on the assets and liabilities of the Group assuming the completion of the Acquisition had taken place on 30 June 2007.

Based on the unaudited pro forma consolidated balance sheet in Appendix IV to this circular, the total assets of the Group would be increased by approximately HK$227.3 million, the total liabilities would be increased by approximately HK$233.5 million and the net assets would be decreased by approximately HK$6.2 million, as a result of the Acquisition.

As set out in appendix IV to this circular, assuming the completion of the Acquisition had taken place on 1 January 2006, the net profit of the Group would be decreased by approximately HK$8.7 million.

The total aggregate consideration payable by the Vendor upon full exercise of the Buy Back Option will be about RMB270,000,000 (equivalent to approximately HK$281,250,000). The Vendor shall have the discretionary power to exercise the Buy Back Option. The consideration payable by the Vendor can be set off against any outstanding Land Consideration. Any consideration payable by the Vendor under the Buy Back Option not utilized for such setting off will be paid by the Vendor to the Target Company, which will be used as the operating cash for future development of the Target Company.

THE EGM

As the transactions under the Agreement as supplemented by the Memorandum of Cooperation constitute a very substantial acquisition (as both the consideration ratio and the equity capital ratio exceed 100%) and the grant of Buy Back Option constitutes a very substantial disposal (as the consideration ratio thereof exceeds 75%) of the Company under the Listing Rules, the Agreement and the transaction contemplated thereunder (including the transfer of the Land to the Target Company, the issuance of the Settlement Shares and the grant of the Buy Back Option) are subject to the approval of the Shareholders in the EGM. The Company will convene an EGM to seek such approval. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Agreement and the transaction contemplated thereunder (including the transfer of the Land to the Target Company, the issuance of the Settlement Shares and the grant of the Buy Back Option) and therefore no Shareholder is required to abstain from voting at the EGM.

REVISION OF TERMS OF CONVERTIBLE BOND ISSUED ON 1 MARCH 2005 AND ISSUE OF CONVERTIBLE BOND IN THE PRINCIPAL AMOUNT OF HK$5,304,297

As described in the announcement of the Company dated 29 March 2007, the maturity date of the 2005 Convertible Bond issued by the Company on 1 March 2005 was extended to 31 August 2007. The amount of HK$7,500,520 out of the principal of the 2005 Convertible Bond shall be convertible into Shares at a revised conversion price of HK$0.138 per Share (which is determined in line with that of the 2007 Convertible Bonds) and, from 1 March 2007 onwards, bear interest at the Prime Rate. The remaining amount of HK$5,219,480 out of the principal of the 2005 Convertible Bond shall not be convertible into Shares and, from 1 March 2007 onwards, bear interest at the Prime Rate plus 2%.

On 17 August 2007, the Company has agreed with Tritime, the subscriber of the 2005 Convertible Bond, to further extend the maturity date of the 2005 Convertible Bond to 28 February 2009. For the amount of HK$7,500,520 out of the principal of the 2005 Convertible Bond which is convertible into Shares, the interest rate shall remain the Prime Rate and all other terms and conditions remain unchanged.

In respect of the remaining amount of HK$5,219,480 out of the principal of the 2005 Convertible Bond together with its accrued interest, the Company entered into a subscription agreement dated 21 August 2007 with Tritime, by which such remaining amount together with its interest (totaling HK$5,304,297) would be applied towards subscription by Tritime of a new convertible bond in the principal amount of HK$5,304,297 to be issued by the Company. As a result, the remaining amount of HK$5,219,480 out of the principal of the 2005 Convertible Bond has been terminated and the Company becomes liable to Tritime for the new total amount of HK$5,304,297 under the New Convertible Bond.

In view of the revised conversion price of the 2005 Convertible Bond and the various extensions of maturity date thereof, there had been material changes to the terms of the 2005 Convertible Bond. Therefore, the revised 2005 Convertible Bond was agreed and the New Subscription Agreement was entered into instead of revising the terms of the 2005 Convertible Bond.

Tritime has no intention to appoint any representative to the Board.

REVISED 2005 CONVERTIBLE BOND

The principal terms of the revised 2005 Convertible Bond are summarized as follows:—

Principal Amount:	HK$7,500,520
Conversion Period:	On any business day before 14 days period ending on the maturity date
Conversion Price:	HK$0.138 per Share (subject to adjustments for share consolidation or subdivision, capitalization issue, capital distribution, rights issue and issue of new Shares by the Company at less than 90% of the prevailing market price and other events which may have a dilution effect on the 2005 Convertible Bond), representing (i) a discount of 47.92% to the closing price of HK$0.265 per Share as quoted on the Stock Exchange on 29 December 2003, the day immediately preceding the suspension of trading in the Shares, (ii) a discount of 47.92% to the 5 days average closing price per Share of HK$0.265 before suspension, and (iii) a premium of 6.15% to the net asset value per Share of HK$0.13 as at 30 June 2007. The conversion price was agreed based on the then net asset value per Shares with adjustments. As the closing price before suspension of trading of the Shares did not reflect the position of the Company at the time of determination of the conversion price, the conversion price was agreed based on the then net asset value per Shares with adjustments, which results in the discount in (i) and (ii).
Maturity:	28 February 2009
Final Redemption:	Unless previously converted or redeemed in certain circumstances, the 2005 Convertible Bond will be redeemed at par on the above maturity date.
Interest:	The 2005 Convertible Bond will bear interest (i) at a rate of 3% per annum from the date of its issue and (ii) at the Prime Rate from 1 March 2007 onwards.

Ranking:	The Shares to be issued upon conversion of the 2005 Convertible Bond will rank pari passu in all respects with all other existing Shares outstanding at the date of conversion of the 2005 Convertible Bond.
Transferability:	Subject to compliance with all applicable laws and regulation including the Stock Exchange's rule and regulations and the approval for listing in respect of the Shares to be issued upon conversion of the 2005 Convertible Bond, the 2005 Convertible Bond or any part(s) thereof may be freely transferable to any third party which is not a connected party of the Company.
Voting:	The holders of the 2005 Convertible Bond will not be entitled to receive notice of, attend or vote at any meetings of the Company by reason only of their being the holders of the 2005 Convertible Bond.

Assuming full conversion of the revised 2005 Convertible Bond at the above conversion price, the revised 2005 Convertible Bond will be convertible into 54,351,594 fully-paid Shares, representing approximately 20% of the issued share capital of the Company as at the Latest Practicable Date and approximately 16.67% of the issued share capital of the Company as enlarged by the issue of such Shares.

The Directors including the independent non-executive Directors consider that the material changes in the terms of the 2005 Convertible Bond are fair and reasonable and to the interest of the Company and the Shareholders as a whole.

THE NEW SUBSCRIPTION AGREEMENT

The Company entered into the New Subscription Agreement on 21 August 2007.

New Subscription Agreement

Date: 21 August 2007

Parties: The Company and Tritime

Pursuant to the New Subscription Agreement, Tritime agreed to subscribe for and the Company has agreed to issue a convertible bond in the principal amount of HK$5,304,297 upon completion thereof in accordance with the terms and conditions thereof.

The New Convertible Bond is convertible into Shares. New Conversion Shares will be issuable upon conversion of the New Convertible Bond and will rank pari passu in all respects with the existing Shares. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the New Conversion Shares.

PRINCIPAL TERMS OF THE NEW CONVERTIBLE BOND

The principal terms of the New Convertible Bond are summarised as follows:

Subscription Price and Principal Amount:	HK$5,304,297
Completion:	The parties has agreed that completion shall take place within 5 business days upon the approval by the Shareholders of the New Convertible Bond and the issuance of the New Conversion Shares.
Maturity:	28 February 2009
Redemption:	On the occurrence of an event of default as set out in the conditions of the New Convertible Bond (which includes : default in performance or observance by the Company of obligations under the New Convertible Bond, any encumbrancer taking possession or receiver being appointed of assets or undertaking of the Company, the Company ceasing or threatening to cease to carry on its business or substantial part thereof which adversely affect its financial or business position, any conditions of the New Convertible Bond becoming void, illegal or ceasing to be in full force or effect, petition for winding-up being filed, receiver or trustee for winding-up being appointed, entry of winding-up order or any corporate action taken to give such effect in respect of the Company, moratorium agreed in respect of the indebtedness of the Company, governmental agency or authority seizing all or material part of assets of the Company, any representation, warranty or undertaking by the Company proved to have been incorrect, unlawful or illegal for the Company to perform its obligations under the New Convertible Bond, distress, execution or seizure is levied or enforced upon the properties of the Company which remains un-discharged or Shares ceasing to be listed on the Stock Exchange), the holders of the New Convertible Bond may demand immediate redemption of the New Convertible Bond at an amount equal to the outstanding principal amount of the New Convertible Bond plus interest accrued thereon up to the actual date of redemption.
Conversion Period:	On any business day after the date of issue of the New Convertible Bonds and before 14 days period ending on the above maturity date.

Conversion Price:	HK$0.138 per Share (subject to adjustments in accordance with the terms of the New Convertible Bond (which include : consolidation or subdivision of the Shares, issue of Shares by way of capitalization of profits or reserves to Shareholders, capital distribution to Shareholders, right issues of shares or rights to acquire Shares to Shareholders, right issues of other securities to Shareholders, issue at less than the then current market price of the Shares, issue of convertible securities, modification of rights of conversion, exchange or subscription of the securities issued as mentioned above, other offers of securities to the Shareholders), representing (i) a discount of 47.92% to the closing price of HK$0.265 per Share as quoted on the Stock Exchange on 29 December 2003, the day immediately preceding the suspension of trading in the Shares, (ii) a discount of 47.92% to the 5 days average closing price per Share of HK$0.265 before suspension, and (iii) a premium of 6.15% to the net asset value per Share of HK$0.13 as at 30 June 2007.
Interest:	The New Convertible Bond will bear interest from the date of its issue at the rate per annum equal to the aggregate of (i) the Prime Rate; and (ii) 2 per cent (2%) on the principal amount of the New Convertible Bond outstanding from time to time, which will be payable on the above maturity date.
Ranking:	The New Conversion Shares will rank pari passu in all respects with all other existing Shares outstanding at the date of conversion of the New Convertible Bond.
Transferability:	The New Convertible Bond or any part(s) thereof may be assigned or transferred to any third party which is not a connected person of the Company, subject to compliance with the conditions thereof and the conditions, approvals, requirements and any other provisions of or under the Stock Exchange and its rules and regulations, the approval for listing in respect of the New Conversion Shares and all applicable laws and regulations.
Voting:	The holders of the New Convertible Bond will not be entitled to receive notice of, attend or vote at any meetings of the Company by reason only of their being the holders of the New Convertible Bond.

Assuming full conversion of the New Convertible Bond at the above conversion price, the New Convertible Bond will be convertible into 38,436,934 fully-paid Shares, representing approximately 14.14% of the issued share capital of the Company as at the Latest Practicable Date and approximately 12.39% of the issued share capital of the Company as enlarged by the issue of the New Conversion Shares.

At the time when the New Subscription Agreement had been signed by Tritime and was returned to the Company, the Company was in negotiation with the Vendor for the detailed terms of the Memorandum of Cooperation. The requirement for publishing an announcement in relation to the New Subscription Agreement was inadvertently overlooked by the Company, which resulted in delay in the publication of the Announcement.

The Directors including the independent non-executive Directors consider that the issue of the New Convertible Bond is fair and reasonable and to the interest of the Company and the Shareholders as a whole.

APPROVAL FROM SHAREHOLDERS FOR (1) EXTENSION OF 2005 CONVERTIBLE BOND AND (2) ISSUANCE OF THE NEW CONVERSION SHARES

In view of the revised conversion price of the 2005 Convertible Bond and the various extensions of maturity date thereof, there had been material changes to the terms of the 2005 Convertible Bond. Therefore, the Director will seek to obtain approval from the Shareholders at the EGM for revision of the terms of the amount of HK$7,500,520 out of the principal of the 2005 Convertible Bond and the issuance of the new Shares under the revised 2005 Convertible Bond, including revision of the conversion price and the extension of the maturity date.

The Directors will seek to obtain approval from Shareholders at the EGM for issuance of the New Conversion Shares.

If the above approval cannot be obtained at the EGM, only the New Conversion Shares, but not the new Shares to be converted under the revised 2005 Convertible Bond, will be issued pursuant to the general mandate granted to the Directors by resolution of the Shareholders passed on 29 June 2007.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the New Subscription Agreement and therefore no Shareholder is required to abstain from voting at the EGM.

EXTENSION OF MATURITY DATES OF TWO CONVERTIBLE BONDS ISSUED ON 14 JUNE 2007 AND 28 JUNE 2007 RESPECTIVELY

As described in the announcements of the Company dated 15 June 2007 and 29 June 2007 respectively, the Company on 14 June 2007 and 28 June 2007 respectively issued two convertible bonds with principal amounts of HK$33,403,150 and HK$23,055,000, which are convertible into Shares, at a conversion price of HK$0.138 per Share, details of which was described in the announcement of the Company dated 20 April 2007. The 2007 Convertible Bonds mature two months from their respective issue dates, i.e. on 14 August 2007 and 28 August 2007 respectively.

The Company has agreed with Crown Champion, the subscriber of the 2007 Convertible Bonds, to extend the maturity date of the 2007 Convertible Bonds to 28 February 2009. All other terms and conditions of the 2007 Convertible Bonds remain unchanged. The number of Shares to be issued upon full conversion of the 2007 Convertible Bonds is 409,117,028, representing approximately 150.54% of the issued share capital of the Company as at the Latest Practicable Date and approximately 60.09% of the issued share capital of the Company as enlarged by the issue of such Shares.

The principal terms of the 2007 Convertible Bonds are summarize as follows:

Principal Amounts:	HK$33,403,150 and HK$23,055,000 respectively
Maturity:	28 February 2009
Redemption:	At any time prior to the maturity Date and on the occurrence of an event of default as set out in the conditions of the 2007 Convertible Bonds (which includes : default in performance or observance by the Company of obligations under the 2007 Convertible Bonds, any encumbrancer taking possession or receiver being appointed of assets or undertaking of the Company, the Company ceasing or threatening to cease to carry on its business or substantial part thereof which adversely affect its financial or business position, any conditions of the 2007 Convertible Bonds becoming void, illegal or ceasing to be in full force or effect, petition for winding-up being filed, receiver or trustee for winding-up being appointed, entry of winding-up order or any corporate action taken to give such effect in respect of the Company, moratorium agreed in respect of the indebtedness of the Company, governmental agency or authority seizing all or material part of assets of the Company, any representation, warranty or undertaking by the Company proved to have been incorrect, unlawful or illegal for the Company to perform its obligations under the 2007 Convertible Bonds, distress, execution or seizure is levied or enforced upon the properties of the Company

which remains un-discharged or Shares ceasing to be listed on the Stock Exchange), the holders of the 2007 Convertible Bonds may demand immediate redemption of the 2007 Convertible Bonds at an amount equal to the outstanding principal amount of the 2007 Convertible Bonds plus interest accrued thereon up to the actual date of redemption.

At any time on and after the maturity date, the holders of the 2007 Convertible Bonds may demand immediate redemption of the 2007 Convertible Bonds at an amount equal to the outstanding principal amount of the 2007 Convertible Bonds plus interest accrued thereon up to the actual date of redemption.

Conversion Period: On any business day after (but not before) the maturity date or any other day as the holder of the 2007 Convertible Bonds and the Company may agree in writing and ending on the date falling two (2) years thereafter.

Conversion Price: HK$0.138 per Share (subject to adjustments in accordance with the terms of the 2007 Convertible Bonds (which include : consolidation or subdivision of the Shares, issue of Shares by way of capitalization of profits or reserves to Shareholders, capital distribution to Shareholders, right issues of shares or rights to acquire Shares to Shareholders, right issues of other securities to Shareholders, issue at less than the then current market price of the Shares, issue of convertible securities, modification of rights of conversion, exchange or subscription of the securities issued as mentioned above, other offers of securities to the Shareholders), representing a discount of 47.92% to the closing price of HK$0.265 per Share as quoted on the Stock Exchange on 29 December 2003, the day immediately preceding the suspension of trading in the Shares.

Interest: The 2007 Convertible Bonds will bear interest from the date of its issue at the rate per annum equal to the aggregate of (i) the Prime Rate; and (ii) 4 per cent (4%) on the principal amount of the Convertible Bonds outstanding from time to time, which will be payable on the maturity date.

In the event that the Company fails to pay the outstanding principal amount of the 2007 Convertible Bonds in accordance with its terms, the Company shall pay interest on such overdue sum from the due date (date inclusive) to the date of actual payment (date exclusive) at the rate of 36.5 per cent (36.5%) per annum.

Issue:	The 2007 Convertible Bonds will be issued at par and in registered form.
Ranking:	The conversion shares to be issued upon conversion of the 2007 Convertible Bonds will rank pari passu in all respects with all other existing Shares outstanding at the date of conversion of the 2007 Convertible Bonds.
Transferability:	The 2007 Convertible Bonds or any part(s) thereof may be assigned or transferred to any third party which is not a connected person of the Company, subject to compliance with the conditions thereof and the conditions, approvals, requirements and any other provisions of or under the Stock Exchange and its rules and regulations, the approval for listing in respect of the conversion shares and all applicable laws and regulations.
Voting:	The holders of the 2007 Convertible Bonds will not be entitled to receive notice of, attend or vote at any meetings of the Company by reason only of their being the holders of the 2007 Convertible Bonds.

The extension of the 2007 Convertible Bonds was requested by the Company in order to improve the cashflow position of the Company and was agreed by Crown Champion.

As the extension of the maturity date of the 2007 Convertible Bonds is a material change to the terms thereof, the Director will seek to obtain approval from the Shareholders at the EGM for revision of the terms of the 2007 Convertible Bonds.

The Directors including the independent non-executive Directors consider that the extension of maturity date of the 2007 Convertible Bonds are fair and reasonable and to the interest of the Company and the Shareholders as a whole.

THE WHITEWASH WAIVER

Assuming issuance of 2007 Convertible Bonds up to the aggregate maximum amount and in the event that Crown Champion shall exercise its right to fully convert the 2007 Convertible Bonds into Shares, Crown Champion and persons acting in concert with it will become interested in a total of 409,117,028 Shares, representing approximately 60.09% of the enlarged issued share capital of the Company as enlarged by such issue of Shares. Crown Champion and persons acting in concert with it will then be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code.

A Whitewash Waiver for the 2007 Convertible Bonds was granted by the Executive Director of the Corporate Finance Division of the SFC and approved by the Independent Shareholders on the basis of the original terms and conditions of the 2007 Convertible Bonds before the extension of the maturity dates thereof. Such Whitewash Waiver will not be applicable to the 2007 Convertible Bonds when their terms are amended materially by the extension of the maturity dates thereof.

An application will be made to the Executive Director of the Corporate Finance Division of the SFC for the Whitewash Waiver when it is anticipated that an imminent conversion thereof will trigger an obligation to make a mandatory general offer pursuant to Rule 26 of the Takeovers Code. Such Whitewash Waiver, if granted by the Executive Director of the Corporate Finance Division of the SFC, would be subject to the approval of the Independent Shareholders taken by way of a poll at an extraordinary general meeting of the Company to be convened for such purposes.

EFFECT ON THE SHARE CAPITAL

The following table summarizes the shareholding structure of the Company as at the Latest Practicable Date, assuming the issuance of the Settlement Shares, and assuming that the revised 2005 Convertible Bond, 2007 Convertible Bonds and the New Convertible Bond are fully converted, and assuming the issuance of the Settlement Shares:

	Existing (as at the Latest Practicable Date)		Assuming issuance of all the Settlement Shares		Assuming that revised 2005 Convertible Bond, 2007 Convertible Bonds and New Convertible Bond are fully converted into Shares at the Conversion Price of HK$0.138 each after the issuance of all the Settlement Shares	
Name of Shareholder	No. of Shares	Approx. % to the issued share capital of the Company	No. of Shares	Approx. % to the enlarged issued share capital of the Company	No. of Shares	Approx. % to the enlarged issued share capital of the Company
New Rank Groups Limited *(Note 1)*	54,351,600	20.00%	54,351,600	16.68%	54,351,600	6.57%
Han Junran *(Note 2)*	13,587,900	5.00%	13,587,900	4.17%	13,587,900	1.64%
Tritime	—	—	—	—	92,788,528	11.21%
Crown Champion	—	—	—	—	409,117,028	49.43%
The Vendor *(Note 3)*	—	—	54,000,000	16.58%	54,000,000	6.52%
Existing public shareholders	203,818,500	75.00%	203,818,500	62.57%	203,818,500	24.63%
Total	271,758,000	100%	325,758,000	100%	827,663,556	100%

Note:

(1) New Rank Groups Limited is a wholly-owned subsidiary of Silver World Limited which is, in turn, wholly-owned by Royal Bank Trustee. Royal Bank Trustee is the trustee of a discretionary trust called New Rank Trust. The beneficiaries of the New Rank Trust include a holding company and its wholly-owned subsidiary and certain relatives of Mr. Leung Kwo and Ms. Lau Shun, wife of Leung Kwo, provided that such individuals are not residents of Canada for tax purposes nor residents of the PRC. The holding company is wholly-owned by another discretionary trust called Hold Trust. The beneficiaries under the Hold Trust include the lineal descendents (together with their spouses) of every degree of consanguinity of the paternal grandfather and maternal grandfather of each of Mr. Leung Kwo and Ms. Lau Shun provided that they are not residents of Canada for tax purposes nor residents of the PRC. Upon ceasing to be a substantial shareholder of the Company in the events as set out in the above table, New Rank Groups Limited will be considered a public shareholder of the Company.

(2) Mr. Han Junran is an executive director and Chairman of the Company.

(3) The Vendor and its ultimate beneficial owner are third parties independent of Tritime, Han Junran, Crown Champion and New Rank Groups Limited and their respective associates (as defined in the Listing Rules).

FUND RAISING ACTIVITIES OF THE COMPANY DURING THE PAST 12 MONTHS

The Company has obtained loans totaling HK$51.75 million by entering into the loan agreement and subscription agreements with Crown Champion, details of which were provided in the circular issued by the Company dated 20 April 2007.

The net proceeds from the 2007 Convertible Bonds was intended to be used for repayment of certain debts owed by the Company to Starry Joy. The full amount of the net proceeds received by the Company in the amount of HK$30,000,000 was actually used for such repayment.

Save as described above, there has not been any fund raised on any issue of equity securities in the 12 months immediately preceding the date of the Announcement.

INCREASE IN AUTHORIZED SHARE CAPITAL

The authorized share capital of the Company shall be increased such that the Company shall have sufficient authorized but unissued share capital for issuance of the Settlement Shares and the New Conversion Shares. The authorized share capital of the Company as at the Latest Practicable Date represents 902,591,333 Shares, which will be increased to 2,000,000,000 Shares by creation of additional 1,097,408,667 Shares. The increase in authorized share capital shall be approved in the EGM.

The Company has no current concrete plan for issuing new Shares in the near future. However, the Directors cannot eliminate the possibility of doing so should it be beneficial to the Company.

GENERAL

The Group is principally engaged in property development in the PRC.

Trading in the Shares has been suspended on the Stock Exchange since 30 December 2003 and will remain suspended until further notice.

The Company has yet to demonstrate to the satisfaction of the Stock Exchange that it has sufficient level of operation or tangible assets of sufficient value to warrant the continued listing of the Shares on the Stock Exchange pursuant to Rule 13.24 of the Listing Rules. Accordingly, the Company was placed into the second stage of the delisting procedures on 12 January 2005.

On 1 March 2005, the Company issued the 2005 Convertible Bond in the principal amount of HK$12 million, the net proceeds of which was used as working capital of the Company. On 22 November 2005, a prescribed standard form commodity house pre-sale contract was entered into between Zhong Zheng and China Network Communications Group Corporation (中國網絡通信集團公司) adopting substantially the sane terms of the agreement dated 23 December 2003 entered into between the same parties relating to the Network Communication Plaza (網通大廈) (formerly known as China Securities Plaza (中國証券大廈)). On 14 June 2007, one of the 2007 Convertible Bonds in the principal amounts of HK$33,403,150 was issued. On 28 June 2007, the other one of the 2007 Convertible Bonds in the principal amount of HK$23,055,000 was issued. The net proceeds from the issuance of the 2007 Convertible Bonds was used as repayment of certain debts owed by the Company to Starry Joy Properties Investment Limited.

The Company has been actively preparing further information for submission to the Stock Exchange and has been making submissions since about 30 July 2007 in order to substantiate that it meets the requirements under Rule 13.24.

The Company has been informed by the Stock Exchange in its letter dated 1 February 2008 that the following conditions are required to be fulfilled to the satisfaction of the Stock Exchange before resumption of trading in the Shares:—

1. disclosing details of the various submissions made by the Company to the Stock Exchange since 30 July 2007 and the actions taken by the Company to remedy those matters that gave rise to the Stock Exchange's proposal to cancel the listing of the Company by way of announcement(s), including but not limited to, an update of its operations, assets and working capital position together with comforts on cashflow/profit forecasts and proper disclosure of the legal position relating to the title of the Consideration Property as defined in the circular of the Company dated 27 November 2006;

2. the pro forma net asset value of the Group as enlarged by the Target Company upon completion of the Acquisition disclosed in the circular in respect of the very substantial acquisition relating to the Acquisition not indicating any material adverse change from the net asset value of the Group as at 30 June 2007;

3. inclusion in this circular a statement of the Directors as to the sufficiency of the working capital of the Group for the next twelve months from the date of this circular, and submission to the Stock Exchange a comfort letter from the auditors of the Company in respect of such working capital statement;

4. submission to the Exchange a comfort letter from the auditors of the Company on the profit forecast of the Group for at least the same period covered by the cashflow forecast of the Group relating to the working capital statement in condition (3) above;

5. no major concerns raised by the auditors of the Company in their audit report on the final results of the Company for the year ended 31 December 2007; and

6. passing of the relevant resolutions by the Shareholders on the Acquisition with any Shareholders who have a material interest in the transactions abstaining from voting in respect of the resolutions as required under the Listing Rules.

THE EXTRAORDINARY GENERAL MEETING

A notice of the EGM to be convened and held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on 18 March 2008 at 3:00 p.m. for the purpose of considering the Agreement as supplemented by the Memorandum of Cooperation, the revision of the terms of 2005 Convertible Bond, the issue of New Convertible Bond, extension of maturity dates of 2007 Convertible Bonds and increase in authorised share capital is set out on pages 156 to 159 of this circular.

Pursuant to the Listing Rules, the Company will procure that the chairman of the EGM will demand the vote for the resolutions at the EGM to be taken by a poll. Please refer to Appendix V for the procedure by which you may demand a poll pursuant to the articles of association of the Company. If you are unable to attend the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon. In order to be valid, the proxy form must be deposited by hand or post to the Company's Hong Kong branch share registrar, Union Registrars Limited, Rooms 1901-1902, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, not less than 48 hours before the time for holding the EGM or adjourned meeting or not less than 24 hours before the time appointed for taking the poll (as the case may be). If the proxy form is signed by a person under a power of attorney or other authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the EGM.

RECOMMENDATION

Having taken into account of the information set out above, the Board considers that the terms of the Agreement, the revision of 2005 Convertible Bond, the issue of New Convertible Bond, the extension of maturity dates of 2007 Convertible Bonds and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole and so recommends the Shareholders to vote in favour of the resolutions relating to the aforesaid matters at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to and the notice of the EGM set out in this circular.

Yours faithfully,
For and on behalf of the Board
New City (China) Development Limited
Han Junran
Chairman

Hong Kong, 29 February 2008

: *an unofficial English transliteration or translation for identification purpose only*

A. FINANCIAL SUMMARY

The following is a summary of the consolidated financial information for the three financial years ended 31 December 2006 and the six months ended 30 June 2007 as extracted from the published annual financial statements of the Company for the years ended 31 December 2005 and 2006 as well as the interim report of the Company for the six months ended 30 June 2007:

Consolidated Income Statement
For the years ended 31 December 2004, 2005 and 2006 and
For the six months ended 30 June 2007

	Year ended 31 December			Six months ended 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)
Turnover	2,651	—	—	2,074,010
Cost of Sales	—	—	—	(1,787,569)
Other income	115	625	1,497	299,817
Administrative expenses	(34,171)	(14,966)	(23,933)	(86,167)
(Loss)/profit from operations	(31,405)	(14,341)	(22,436)	500,091
Finance costs	(7,491)	(6,685)	(10,473)	(8,623)
Gain on disposal of subsidiaries	171,978	—	—	—
(Loss)/profit before taxation	133,082	(21,026)	(32,909)	491,468
Tax credit/(charge)	3,911	—	—	(166,331)
Profit/(loss) after taxation	136,993	(21,026)	(32,909)	325,137
Minority interests	—	—	—	—
Profit/(loss) for the year/period	136,993	(21,206)	(32,909)	325,137
Attributable to:				
Equity holders of the Company	136,993	(21,026)	(32,909)	325,137
Minority interests	—	—	—	—
	136,993	(21,026)	(32,909)	325,137
Dividends	—	—	—	94,600
Earnings/(losses) per share (HK cents)				
Basic	50.4	(7.7)	(12.11)	84.83
Diluted	N/A	N/A	N/A	66.52

Consolidated Balance Sheet

As at 31 December 2004, 2005 and 2006 and As at 30 June 2007

	As at 31 December			As at 30 June
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)
Non-current assets				
Property, plant and equipment	2,823	2,550	1,992	2,125
Investment properties	—	—	—	750,000
	2,823	2,550	1,992	752,125
Current assets				
Property under development of sale	947,789	1,564,583	1,720,280	—
Prepayments and other receivables	174,456	185,307	185,406	24,034
Accounts receivable	—	—	—	77,571
Bank balances and cash	100,014	125,904	64,084	37,944
	1,222,259	1,875,794	1,969,770	139,549
Current liabilities				
Trade payables	239,984	219,450	183,866	98,120
Accruals and other payables	86,710	140,249	142,971	51,798
Advances from a customer	556,075	1,284,798	1,512,166	—
Obligations under finance leases	751	47	—	73
Bank borrowings	280,374	163,462	90,000	90,000
Other borrowings	210,000	210,000	210,000	76,219
Taxes payables	—	—	—	113,007
Provisions	—	14,889	15,484	15,484
	1,373,894	2,032,895	2,154,487	444,701
Net current liabilities	(151,635)	(157,101)	(184,717)	(305,152)
Total assets less current liabilities	(148,812)	(154,551)	(182,725)	446,973
Non-current liabilities				
Trade payables	—	—	—	33,679
Obligations under finance leases	47	—	—	274
Convertible bonds	—	11,866	11,977	63,959
Other borrowings	—	—	—	110,000
Preference shares dividend payable	—	—	—	94,600
Taxes payable	—	—	—	108,852
	47	11,866	11,977	411,364
NET (LIABILITIES)/ASSETS	(148,859)	(166,417)	(194,702)	35,609
Capital and reserves				
Share capital	272	272	272	272
Reserves	(149,131)	(166,689)	(194,974)	35,337
	(148,859)	(166,417)	(194,702)	35,609
Minority interest	—	—	—	—
SHAREHOLDERS' (DEFICIT)/FUND	(148,859)	(166,417)	(194,702)	35,609

B. AUDITED FINANCIAL RESULTS

The following is the audited financial statements of the Company for the financial year ended 31 December 2006 extracted from the Annual Report 2006 of the Company.

SHINEWING (HK) CPA Limited
20/F., Shui On Centre
6-8 Harbour Road, Hong Kong

TO THE SHAREHOLDERS OF
NEW CITY (CHINA) DEVELOPMENT LIMITED
(FORMERLY KNOWN AS NEW CITY (BEIJING) DEVELOPMENT LIMITED)
(incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of New City (China) Development Limited (the "Company") and its subsidiaries (collectively referred as the "Group") on pages 42 to 76, which comprise the consolidated balance sheet as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibilities for the consolidated financial statements

The Company's directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. However, because of the matter described in the basis for disclaimer of opinion paragraph and the fundamental uncertainties relating to the going concern basis, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Included in the consolidated balance sheet as at 31 December 2006, the prepayments and other receivables, included an amount due from a third party of HK$35.2 million (2005: HK$36.8 million), an amount due from a minority equity owner of a subsidiary of the Group of HK$12.6 million (2005: HK$12.6 million), temporary advances to third parties of HK$25.5 million (2005: HK$19.1 million) and an amount due from a former director of HK$2.5 million (2005: HK$2.5 million). We were unable to obtain sufficient information about the financial position of these parties so as to assess the recoverability of these amounts.

Any adjustments found to be necessary had we been able to satisfy ourselves as to the recoverability of such amounts would have a consequential impact on the net liabilities of the Group as at 31 December 2006 and the results of the Group for the year then ended.

Fundamental uncertainties relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in Note 2 to the consolidated financial statements which describe the liquidity position of the Group, the Group has certain overdue bank borrowings and other borrowings and the adoption of the going concern basis in the preparation of the consolidated financial statements.

As at 31 December 2006, the Group had net current liabilities of approximately HK$185 million and net liabilities of approximately HK$195 million. In addition, the Group has overdue bank borrowings and other borrowings totaling approximately HK$90 million and HK$70 million, respectively and such amounts have became repayable on demand. Based on the current financial position of the Group, the Group might have difficulty to repay the overdue bank and other borrowings in cash. If the going concern basis is not appropriate, adjustments would have been made to reclassify non-current assets and liabilities as current assets and liabilities respectively, to reduce the values of assets to their immediate recoverable amounts and to provide for any further liabilities which might arise. Such adjustments may have a significant consequential effect on the loss for the year and net liabilities of the Group at 31 December 2006. We consider that appropriate disclosures have been made but because of the significant uncertainty relating to whether the going concern basis adopted in the consolidated financial statements is appropriate, we have disclaimed our opinion.

Disclaimer of opinion: disclaimer on view given by consolidated financial statements

Because of the significance of the matters described in the paragraphs of the basis for disclaimer of opinion and the fundamental uncertainties relating to the going concern basis, we do not express an opinion on the consolidated financial statements as to whether the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2006 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lo Wa Kei
Practising Certificate Number: P03427

Hong Kong
30 April 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Turnover	7	—	—
Other income	8	1,497	625
Administrative expenses		(23,933)	(14,966)
Finance costs	9	(10,473)	(6,685)
Loss before taxation		(32,909)	(21,026)
Income tax expense	12	—	—
Loss for the year	13	(32,909)	(21,026)
Attributable to:			
Equity holders of the parent company		(32,909)	(21,026)
Minority interest		—	—
		(32,909)	(21,026)
Dividend	14	—	—
Loss per share (HK cents)	15		
Basic		(12.11)	(7.7)
Diluted		N/A	N/A

Consolidated Balance Sheet
At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Plant and equipment	16	1,992	2,550
Current assets			
Property under development for sale	17	1,720,280	1,564,583
Prepayments and other receivables	18	185,406	185,307
Bank balances and cash	19	64,084	125,904
		1,969,770	1,875,794
Current liabilities			
Trade payables	20	183,866	219,450
Accruals and other payables		142,971	140,249
Advances from a customer	21	1,512,166	1,284,798
Obligations under finance lease	22	—	47
Bank borrowings	23	90,000	163,462
Other borrowings	24	210,000	210,000
Provisions	25	15,484	14,889
		2,154,487	2,032,895
Net current liabilities		(184,717)	(157,101)
Total assets less current liabilities		(182,725)	(154,551)
Non-current liabilities			
Convertible bond	26	11,977	11,866
NET LIABILITIES		(194,702)	(166,417)

Consolidated Balance Sheet *(Continued)*
At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Capital and reserves			
Share capital	27	272	272
Reserves		(194,974)	(166,689)
		(194,702)	(166,417)
Minority interest		—	—
DEFICIENCY OF SHAREHOLDERS' FUNDS		(194,702)	(166,417)

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000*	Convertible bond equity reserve *HK$'000*	Translation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2005	272	20,773	4,755	—	(108)	(174,551)	(148,859)
Exchange differences arising on translation of foreign operations	—	—	—	—	3,242	—	3,242
Recognition of equity component of convertible bond	—	—	—	226	—	—	226
Loss for the year	—	—	—	—	—	(21,026)	(21,026)
At 31 December 2005 and 1 January 2006	272	20,773	4,755	226	3,134	(195,577)	(166,417)
Exchange differences arising on translation of foreign operations	—	—	—	—	4,624	—	4,624
Loss for the year	—	—	—	—	—	(32,909)	(32,909)
At 31 December 2006	272	20,773	4,755	226	7,758	(228,486)	(194,702)

Consolidated Cash Flow Statement

At 31 December 2006

	2006	2005
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Loss before taxation	(32,909)	(21,026)
Adjustment for:		
Depreciation of plant and equipment	764	949
Reversal of impairment loss recognised in respect of other receivables	(1,495)	—
Interest income	(2)	(279)
Finance costs	10,473	6,685
Operating cash flow before movements in working capital	(23,169)	(13,671)
Increase in property under development for sale	(11,259)	(573,730)
Decrease (increase) in prepayments and other receivables	7,046	(8,163)
Decrease in trade payables	(116,566)	(27,457)
(Decrease) increase in accruals and other payables	(948)	68,117
Increase in advances from a customer	175,976	712,683
Cash generated from operations	31,080	157,779
Interest paid	(19,031)	(22,316)
Net cash from operating activities	12,049	135,463
INVESTING ACTIVITIES		
Purchase of plant and equipment	(116)	(616)
Interest received	2	279
Net cash used in investing activities	(114)	(337)
FINANCING ACTIVITIES		
Repayments of bank borrowings	(80,000)	(125,000)
Proceeds from other borrowings	30,000	—
Repayment of other borrowings	(30,000)	—
Repayments of obligations under finance lease	(47)	(751)
Proceeds from issue of convertible bond	—	12,000
Net cash used in financing activities	(80,047)	(113,751)
(Decrease) increase in cash and cash equivalents	(68,112)	21,375
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	125,904	100,014
Effect of foreign exchange rate changes	6,292	4,515
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	64,084	125,904

Notes to the Consolidated Financial Statements

Year ended 31 December 2006

1. GENERAL

New City (China) Development Limited (the "Company") was incorporated in the Cayman Islands on 10 August 1998 with limited liability. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, being the measurement currency of the Company and its subsidiaries (the "Group").

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are property development in the People's Republic of China (the "PRC").

2. BASIS OF PRESENTATION

As at 31 December 2006, the Group had net current liabilities of approximately HK$185 million (2005: HK$157 million). Also, as at the same date, the Group had net deficiencies of approximately HK$195 million (2005: HK$166 million). Further, the Group incurred a loss of approximately HK$33 million (2005: HK$21 million) for the year ended 31 December 2006.

The consolidated financial statements have been prepared on a going concern basis, notwithstanding that the Group had net deficiencies as at 31 December 2006.

As explained in Note 23, the Group has certain bank borrowings totaling approximately HK$90 million (2005: HK$163 million) and such amounts have become repayable on demand. Also, other borrowings as explained in Note 24 at the amount of approximately HK$70 million (2005: HK$210 million) become overdue during the year of 2006. In the opinion of the directors, the liquidity of the Group can be maintained in the forthcoming year, after taking into consideration of the following financing and operating measures:

In 2003, the Group entered into a conditional agreement with China Network Communications Group Corporation ("CNC"), an independent third party, in relation to certain financial and construction arrangements for the property under development for sale. Pursuant to the agreement, the Group agreed, subject to satisfaction of certain conditions precedent, to dispose to CNC the property under development upon completion for an aggregate consideration of approximately RMB2,007 million (equivalent to approximately HK$2,007 million). The consideration is to be settled by a cash consideration of approximately RMB1,557 million (equivalent to approximately HK$1,557 million) payable in eight separate installments and the remaining by properties at an agreed value of approximately RMB450 million (equivalent to approximately HK$450 million). Up to 31 December 2006, installment payments from CNC of approximately RMB1,512 million (equivalent to HK$1,512 million) have been received (Note 21). The installments are to solely finance the development of the property. The conditions precedent to the completion of the sale include, among other things, passing of the examinations of the completed property by relevant government authorities and the satisfaction of certain quality standards as required by CNC. The project is currently under the preparation stage of registration. The directors consider that the remaining installment payments to be received by the Group will be sufficient to enable the Group to complete the project and the Group is able to satisfy the conditions precedent to the sale.

2. BASIS OF PRESENTATION *(Continued)*

The management of the Group is negotiating with its bankers and creditors for the rescheduling or extension of the existing loan facilities and amounts due to creditors. The directors are confident that, on the basis that the disposal of the property under development for sale will be successfully completed and the property as described above be self-financing, and assumed the negotiations with the bankers and creditors can be satisfactorily concluded, the Group will be able to meet in full its overdue loans and financial obligations as they fall due in the foreseeable future.

During the year, the directors have taken actions to tighten cost controls over various general and administrative expenses. The directors expect that the cost control measures adopted will improve the profitability and cash flows of the Group.

The directors are of the opinion that, in view of the measures taken to date, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following area:

Financial guarantee contracts

In the current year, the Group has applied Hong Kong Accounting Standard ("HKAS") 39 and HKFRS 4 (Amendments) "*Financial guarantee contracts*" which is effective for annual periods beginning on or after 1 January 2006. A financial guarantee contract is defined by HKAS 39 "*Financial Instruments: Recognition and Measurement*" as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument".

Prior to 1 January 2006, financial guarantee contracts were not accounted for in accordance with HKFRS 4 "*Insurance Contract*" and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "*Revenue*".

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Financial guarantee contracts *(Continued)*

In relation to a financial guarantee granted to banks over the repayment of a loan by an independent third party. The directors consider that the fair value of the financial guarantee contract at the date of grant is insignificant with reference to the valuation carried out by an independent professional valuer. Accordingly, the adoption of this HKAS 39 and HKFRS 4 (Amendments) has no material effect on how the results for the current or prior accounting periods have been prepared and presented.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective as at 31 December 2006. The directors of the Company anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)- Interpretation ("Int") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amounts of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Revenue recognition

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Plant and equipment *(Continued)*

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual value of up to 10%, using the straight-line method as stated below:

Furniture, fixtures and equipment	20% to 50%
Motor vehicles	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Property under development for sale

Property under development for sale is included in current assets at the lower of cost or estimated net realisable value.

Cost of property under development for sale comprises land costs, fees for land use rights and development costs including borrowing costs capitalised and other costs directly attributable to such properties. Net realisable value is based on estimated selling prices in the ordinary course of business as determined by management with reference to prevailing market conditions, less further estimated costs of completion and direct selling expenses.

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

4. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Impairment losses *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit costs

Payments to the Group's defined contribution retirement benefits plans, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expense when employees have rendered service entitling them to the contributions.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are generally classified as loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policy adopted is set out below.

4. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payables, advances from customers, obligations under finance lease, bank borrowings and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Convertible bond

Convertible bond issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bond and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bond into equity, is included in equity (convertible bond equity reserve).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible bond (Continued)

In subsequent periods, the liability component of the convertible bond is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bond equity reserve until the embedded option is exercised (in which case the balance stated in convertible bond equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bond equity reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs relating to the issuance of the convertible bond are charged to the profit and loss immediately.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designed as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "*Revenue*".

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 4, management has made the following judgments that have significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

(a) Estimated impairment on property under development for sale

As explained in Note 4, the carrying value of property under development for sale is dependent on estimating the net realisable value, which is with reference to the total outcome of the construction contract, as well as the estimated cost of completion and direct selling expenses on disposal. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes best estimates of the costs to completion and the net realisable value of the property under development for sale. However, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the carrying amount of the property under development for sale at 31 December 2006.

(b) Income taxes

As at 31 December 2006, the Group did not recognise deferred tax assets in respect of its unused tax losses of approximately HK$2,939,000 (2005: HK$2,939,000) due to the uncertainty of its utilisation in future years. Realisation primarily involves judgement regarding the future performance of the particular legal entity in which the deferred tax asset has not been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portions or all of the deferred tax assets will ultimately be realised, such as existence of taxable temporary differences and the periods in which estimated tax losses can be utilised. The Group reviews at each balance sheet date its tax position to see whether there is sufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the unused tax losses and to recognise the relevant tax assets.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments are other receivables, trade and other payables, advances from customers, obligations under finance lease, bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The extent of the Group's credit exposure is represented by the aggregate balances of cash in bank, prepayments and other receivables, and property under development for sale. In order to minimise the credit risk, the management of the Group has tight control over working capital management and on the credit policies and the counterparties related to banks are with high credit-worthiness.

The Group has arranged bank financing for property under development for sale. Details disclosure of relevant securities has been made in Note 17.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks which are short-term in nature. Interest bearing financial liabilities are mainly bank borrowings and other borrowings with floating and fixed rates, respectively *(Notes 23 and 24)*. The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings.

Liquidity risk

Advances from customers, bank borrowings and issuance of convertible bond are the general sources of funds to finance the operations of the Group. Majority of the Group's banking facilities are subject to fixed interests rates and are renewable annually. The Group's liquidity risk management includes obtaining standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations *(Note 2)*.

Foreign currency risk

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the Hong Kong dollars and Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group is paying regular and active attention to Renminbi exchange rate fluctuation and consistently assess foreign currency risk.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair value of the financial assets and financial liability

The Group reviews at each balance sheet date the fair value of its financial assets (including other receivables) and financial liabilities (including trade and other payables, advances from a customer, obligations under finance lease, bank and other borrowings). Based on the best estimation of the directors, the carrying values of the financial assets and financial liabilities approximates to the corresponding carrying amount due to their short-term maturities.

7. TURNOVER AND SEGMENT INFORMATION

The Group generated no turnover for the year since the property was still under development as at 31 December 2006, no profit nor revenue was therefore recognised.

For the two years ended 31 December 2006 and 2005, the Group was only operated in property development and no business segment information is presented accordingly.

No geographical segment information of the Group is shown as the operating business of the Group is solely carried out in Beijing, the PRC and over 90% of Group's assets are located in the PRC.

8. OTHER INCOME

	2006	**2005**
	HK$'000	*HK$'000*
Interest income	2	279
Exchange gain	—	346
Reversal of impairment loss recognised in respect of other receivables	1,495	—
	1,497	625

9. FINANCE COSTS

	2006 *HK$'000*	2005 *HK$'000*
Interest on:		
— bank borrowings wholly repayable within five years	8,558	15,723
— other borrowings wholly repayable within five years	10,000	6,287
— convertible bond *(Note 26)*	471	392
— finance lease	2	6
Total borrowing costs	19,031	22,408
Less: amounts capitalised in property under development for sale	(8,558)	(15,723)
	10,473	6,685

Borrowing costs capitalised during the year arose on general borrowing pool and are calculated by applying a capitalisation rate of 6.336% — 10.395% per annum (2005: 6.000% — 6.336%) to expenditure on qualifying assets.

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the five (2005: six) directors were as follows:

For the year ended 31 December 2006

	Han Junran *HK$'000*	Fu Yiu Kwong *HK$'000*	Chan Yiu Tung, Anthony *HK$'000*	Wong Shing Kay, Oliver *HK$'000*	Zheng Qing *HK$'000*	Total *HK$'000*
Fees	—	824	120	120	120	1,184
Other emoluments						
— Salaries and other benefits	1,950	216	—	—	—	2,166
— Contributions to retirement benefits schemes	—	12	—	—	—	12
Total emoluments	1,950	1,052	120	120	120	3,362

10. DIRECTORS' EMOLUMENTS *(Continued)*

For the year ended 31 December 2005

	Han Junran	Fu Yiu Kwong	Tam Biu Sing, Joseph	Chan Yiu Tung, Anthony	Wong Shing Kay, Oliver	Zheng Qing	Total
	HK$'000	*HK$'000*	*HK$'000* *(Note 1)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	—	824	—	120	120	120	1,184
Other emoluments							
— Salaries and other benefits	1,950	216	—	—	—	—	2,166
— Contributions to retirement benefits schemes	—	12	—	—	—	—	12
Total emoluments	1,950	1,052	—	120	120	120	3,362

Note 1: Retired on 23 June 2005

During the two years ended 31 December 2006 and 2005, no emoluments were paid by the Group to the directors as inducement to join or upon joining the Group or as compensation for loss of office. In addition, no director waived any emoluments in both years.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2005: two) were directors of the Company whose emoluments are disclosed in Note 10 above. The emoluments of the remaining three (2005: three) individuals were as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	845	975
Contributions to retirement benefits schemes	33	36
	878	1,011

Their emoluments were all within HK$1,000,000.

No emoluments have been paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group, or as compensation for loss of office during the two years ended 31 December 2006 and 2005.

12. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit subject to Hong Kong Profits Tax for the two years ended 31 December 2006 and 2005.

The group companies operating in the PRC are subject to the PRC enterprise income tax at a rate of 33% (2005: 33%). No provision for PRC enterprise income tax for both years as there is no assessable profit for the two years ended 31 December 2006 and 2005.

The tax charge for the year can be reconciled to the loss per the consolidated income statement as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Loss before taxation	(32,909)	(21,026)
Tax at the domestic income tax rate of 33% (2005: 33%)	(10,860)	(6,939)
Tax effect of expenses not deductible	7,837	5,728
Effect of different tax rates of subsidiaries operating in other jurisdictions	3,023	1,211
Tax expense for the year	—	—

Note: The domestic tax rate which is PRC enterprise income tax in the jurisdiction whether the operation of the Group is substantially based is used.

The Group had no significant unprovided deferred taxation as at 31 December 2006 and 31 December 2005.

At 31 December 2006, the Group has unused tax losses of approximately HK$2,939,000 (2005: HK$2,939,000) available to offset against future profits. No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams.

13. LOSS FOR THE YEAR

	2006	2005
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging:		
Auditors' remuneration	400	420
Depreciation of plant and equipment		
— owned assets	744	929
— leased assets	20	20
	764	949
Net foreign exchange loss	6,353	—
Penalty interest for late payment for business tax in the PRC *(Note)*	3,117	—
Staff costs		
— salaries allowances and benefits in kind	4,834	4,670
— contribution to retirement benefits schemes	64	63
Total staff costs (including directors' remuneration)	4,898	4,733

Note: Beijing Zhong Zheng Real Estate Development Co., Limited ("BJCSB"), the subsidiary in the PRC holding the property under development for sale, is subject to the PRC business tax at 5% of advances received from CNC. The balance represented the penalty interest for the late payment to the PRC tax bureau.

14. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2006, nor has any dividend been proposed since the balance sheet date (2005: Nil).

15. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the loss for the year of approximately HK$32,909,000 (2005: HK$21,026,000) and the weighted average of 271,758,000 (2005: 271,758,000) ordinary shares in issue during the year.

No diluted loss per share has been presented for two years ended 31 December 2006 and 2005 as there were no diluting events existed during those years.

16. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST			
At 1 January 2005	2,630	5,727	8,357
Exchange adjustments	32	65	97
Additions	220	396	616
At 31 December 2005 and 1 January 2006	2,882	6,188	9,070
Exchange adjustments	55	108	163
Additions	116	—	116
At 31 December 2006	3,053	6,296	9,349
DEPRECIATION			
At 1 January 2005	1,404	4,130	5,534
Exchange adjustments	16	21	37
Provided for the year	596	353	949
At 31 December 2005 and 1 January 2006	2,016	4,504	6,520
Exchange adjustments	30	43	73
Provided for the year	387	377	764
At 31 December 2006	2,433	4,924	7,357
CARRYING VALUES			
At 31 December 2006	620	1,372	1,992
At 31 December 2005	866	1,684	2,550

The carrying value of motor vehicles includes an amount of approximately HK$26,000 (2005: HK$46,000) in respect of assets held under finance leases.

17. PROPERTY UNDER DEVELOPMENT FOR SALE

	2006	2005
	HK$'000	*HK$'000*
At cost	1,720,280	1,564,583

The property under development for sale represents China Securities Plaza ("CSP"), a property development project in Beijing, the PRC. At 31 December 2006, the Group pledged the property under development for sale with an aggregate carrying value of approximately HK$1,720,280,000 (2005: HK$1,564,583,000) to secure bank loans granted and amounts payable in respect of land development cost totaling approximately HK$118,430,000 (2005: HK$190,798,000).

During the year ended 31 December 2003, the shareholders of the Company approved the disposal of 49% interest in a then wholly-owned subsidiary, Tong Sun Limited ("Tong Sun"), which holds indirectly the above property under development to Starry Joy Properties Investment Ltd ("Starry Joy"). The sale transaction includes, among other things, Starry Joy to subscribe for 49 new shares in Tong Sun and grant an interest-free loan up to HK$165 million and an interest bearing loan of HK$45 million from the holding company of Starry Joy to the Company. Details of the transaction have been disclosed in the circular to the shareholders dated 3 June 2003. However, as the loans from Starry Joy were overdue on 31 December 2005, therefore an amount of HK$55 million included in the interest-free loan became interest bearing at an interest rate of 10% per annum as from 1 July 2005 *(Note 24 (iii))*.

During the year ended 31 December 2003, the Group entered into an agreement with CNC in relation to certain financial and construction arrangements for the property under development for sale, details of which are set out in Note 2.

The property under development for sale was valued at 31 December 2006 on an open market basis by Greater China Appraisal Limited, an independent valuer at approximately RMB2,100,000,000 (2005: RMB1,798,000,000). The directors are of the opinion that no impairment loss is necessary as at 31 December 2006 (2005: Nil).

18. PREPAYMENTS AND OTHER RECEIVABLES

	2006	**2005**
	HK$'000	*HK$'000*
Interest-free loan *(Note i)*	35,254	36,783
Amount due from a minority equity owner of a subsidiary of the Group *(Note 30(c))*	107,000	102,885
Advance due from a minority equity owner of a subsidiary of the Group *(Note ii)*	12,617	12,617
Amount due from a former director *(Note ii)*	2,460	2,460
Temporary advances	25,505	25,260
Prepaid expenses and deposits	2,570	5,302
	185,406	185,307

Notes:

i During the year ended 31 December 2003, the Group entered into a triparty agreement with the borrower and a third party in the PRC. Under the agreement, the loan amount at that time of approximately HK$37,623,000 was assigned to that third party.

ii The amount due is unsecured, non-interest bearing and has no fixed terms of repayment.

Included in prepayment and other receivables are the amounts denominated in a currency other than the measurement currency of the Group to which they relate:

	2006	**2005**
	RMB'000	*RMB'000*
Interest-free loan	35,254	38,254
Amount due from a minority equity owner of a subsidiary of the Group	107,000	107,000
Advance due from a minority equity owner of a subsidiary of the Group	—	—
Amount due from a former director	—	—
Temporary advances	6,270	6,270
Prepaid expenses and deposits	1,966	3,687
	150,490	155,211

19. BANK BALANCES AND CASH

	2006	2005
	HK$'000	*HK$'000*
Bank balances and cash	64,084	125,904

Included in cash and cash equivalents are the amounts denominated in a currency other than the measurement currency of the Group to which they relate:

	2006	2005
	RMB'000	*RMB'000*
Renminbi	63,862	124,573

20. TRADE PAYABLES

The aged analysis of trade payables at the respective balance sheet dates is as follows:

	2006	2005
	HK$'000	*HK$'000*
Within 3 months	73,297	98,995
4-6 months	—	11,039
7-9 months	—	7,160
10-12 months	—	21,988
Over 1 year	110,569	80,268
	183,866	219,450

21. ADVANCES FROM A CUSTOMER

Advances from a customer mainly represent the installment payments received in respect of the property which is under development for sale *(Note 17)*.

22. OBLIGATIONS UNDER FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases				
Within one year	—	50	—	47
Less: Future finance charges	—	(3)	—	—
	—	47	—	47
Less: Amounts due within one year shown under current liabilities	—	—	—	(47)
Amounts due after one year			—	—

It is the Group's policy to lease certain of its plant and equipment under finance leases. The average lease term is 3 years. For the year ended 31 December 2006, the average effective borrowing rate was 3% (2005: 4.5%) p.a.. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

23. BANK BORROWINGS

	2006	**2005**
	HK$'000	*HK$'000*
Overdue bank loans — secured	90,000	163,462

The bank borrowings are denominated in Renminbi and repayable on demand. The bank borrowings bear annual interest rate varying from 5.28% to 9.504% per annum (2005: from 6.039% to 6.336%). The carrying value of the bank loans approximates their fair value. As explained in Note 2, pursuant to the loan agreement dated 10 November 2005, the loans should be repaid in full on 9 October 2006. The directors consider that the bank would not demand for immediate repayment as disclosed in Note 2.

24. OTHER BORROWINGS

	2006	2005
	HK$'000	*HK$'000*
Secured interest-free loan — repayable on demand *(Notes i and ii)*	110,000	110,000
Overdue interest bearing loan *(Notes i, iii and iv)*	70,000	100,000
Interest bearing loan from the then subscriber of the convertible bond *(Note v)*	30,000	—
	210,000	210,000

Notes:

(i) The above loans represent the loans granted to the Group pursuant to the disposal of 49% interest in Tong Sun *(Note 17).*

(ii) As at 31 December 2006, an amount of HK$110,000,000 is secured on the shares in the Company held by a director and a former director. It was originally interest-free and for a term of 2 years from June 2003 repayable on maturity and was to be applied exclusively to finance the working capital requirements of the property under development for sale. On 25 October 2005, a second supplemental agreement ("Second Supplemental Agreement") was signed which extended the repayment date. Pursuant to the Second Supplemental Agreement, Tong Sun agreed to transfer to Starry Joy such portion of the office building owned by CNC located at Xicheng District, Beijing ("Consideration Property") to be transferred to BJCSB pursuant to the agreement dated 23 December 2003 entered between BJCSB and CNC ("PRC Subsidiary Agreement"), to be agreed by the party/parties which has/have an aggregate appraisal value (as determined by a professional valuer, who is an independent third party, to be engaged by Tong Sun to value the Consideration Property upon completion of the transfer to BJCSB from CNC pursuant to the PRC Subsidiary Agreement and such aggregate appraisal value shall be confirmed by Starry Joy and Tong Sun) equivalent to the full amount of the said balance as soon as practicable after completion of transfer of the Consideration Property to BJCSB.

(iii) As at 31 December 2006, an amount of HK$55,000,000 is secured on the shares in the Company held by a director and a former director. It was originally interest-free and for a term of 2 years from June 2003 repayable on maturity and was to be applied exclusively to finance the working capital requirements of the property under development for sale. On 25 October 2005, a second supplemental agreement was signed which extended the repayment date up to 31 December 2005 and the Group is under negotiation to further extend the repayment date. Due to the extension of repayment, the balance of HK$55,000,000 became interest bearing at an interest rate of 10% per annum as from 1 July 2005. The said loan was overdue since 31 December 2005 and the management of the Group is negotiating with the creditor for the rescheduling or extension of the amounts due to the creditor.

24. OTHER BORROWINGS *(Continued)*

Notes: (continued)

(iv) As at 31 December 2006, an amount of HK$15,000,000 (2005: HK$45,000,000) is unsecured was originally for a term of 2 years from June 2003 and borne interest at the rate of 6% per annum. Further, it was originally repayable in one lump sum upon maturity and was to be applied to finance the general working capital and settlement of trade payable of the Group. On 25 October 2005, a supplemental facility letter was signed to extend the repayment date up to 31 December 2005 and the interest rate was revised to 10% per annum with effect from 1 July 2005. The said loan was overdue since 31 December 2005 and the management of the Group is negotiating with the creditor for the rescheduling or extension of the amounts due to the creditor.

(v) As at 31 December 2006, an amount of HK$30,000,000 (2005: Nil) were unsecured, bear interest of the prime lending rate from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollar deposits (“Prime Rate”) plus 4% per annum and represented the consideration of the convertible bond received in advance *(Note 33(b))*.

(vi) The Group’s other borrowings are denominated in HK$.

25. PROVISIONS

The amount represents the provision for the claim from 北京太陽紅投資諮詢有限公司 (“Beijing Tai Yang Hong”) an independent third party. On 19 January 2006, the Beijing Arbitration Committee made an arbitration award in favor of Beijing Tai Yang Hong that the agreement dated 6 June 2003 for the purchase of the entire 12th Floor of the CSP entered into between Beijing Tai Yang Hong and BJCSB, the 51% indirect owned subsidiary of the Group be cancelled and that the sum of approximately RMB14 million being refund of the purchase price paid and RMB0.8 million being damages be paid by BJCSB to Beijing Tai Yang Hong. BJCSB has applied to the People’s Court in Beijing for stay of enforcement of such award and has been advised by independent qualified PRC legal advisers, Beijing Zhongpu Law Firm that it has grounds to challenge such award. The court is expected to have a ruling in around 1 year’s time during which time the award cannot be enforced. The provision amount represented the management’s best estimate of the financial impact of the claim.

26. CONVERTIBLE BOND

On 1 March 2005, the Company issued a convertible bond bearing interest at 3% per annum with a principal amount of HK$12 million (“2005 Convertible Bond”), which is convertible into the Company’s ordinary shares, at a conversion price of HK$0.30 per share. The convertible bond matures two years from the issue date. The convertible bond, if exercised in full, will be convertible into 40,000,000 ordinary shares, representing approximately 14.7% if the existing issued share capital of the Company as at the balance sheet date.

26. CONVERTIBLE BOND *(Continued)*

The fair values of the liability component and the equity conversion component were determined at the issuance of the convertible bond. The fair value of the liability component, included in non-current financial liabilities, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in convertible bond equity reserve.

The convertible bond recognised in the balance sheet is calculated as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Carrying amount at the beginning of the year	11,866	11,774
Interest expenses *(Note 9)*	471	392
Interest paid	(360)	(300)
Liability component at 31 December 2006	11,977	11,866

The fair value of the liability component of the convertible bond at 31 December 2006, determined based on the present value of the estimated future cash outflows discounted at the prevailing marketing rate for an equivalent non-convertible bond at the balance sheet date, was approximately HK$11,977,000.

27. SHARE CAPITAL

	Number of shares '000	**HK$'000**
Ordinary shares of HK$0.001 each		
Authorised:		
At 1 January 2005, 31 December 2005 and 31 December 2006	500,000	500
Issued and fully paid:		
At 1 January 2005, 31 December 2005 and 31 December 2006	271,758	272

Neither the Company nor any of the subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

28. OPERATING LEASE COMMITMENTS

The Group made approximately HK$1,824,000 (2005: HK$901,000) minimum lease payments under operating leases during the year in respect of rented premises.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Within one year	1,961	3,962
In the second to fifth year inclusive	81	1,961
	2,042	5,923

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases for rented premises are negotiated for an average of two years (2005: two years) and rentals are fixed for an average of two years (2005: two years).

29. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital and construction commitments:

	2006	**2005**
	HK$'000	*HK$'000*
Expenditure in relation to the property under development for sale — contracted for but not provided in the consolidated financial statements	—	12,867

30. RELATED PARTY TRANSACTIONS

(a) Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Short-term benefits	4,195	4,325
Post-employment benefits	45	48
	4,240	4,373

The remuneration of directors and key executives is determined by the Board of Director having regard to the performance of individuals and market trends.

30. RELATED PARTY TRANSACTIONS *(Continued)*

(b) 13,587,900 shares and 54,351,600 shares of the Company held directly or indirectly by a director and a former director respectively have been charged to secure loans granted to the Group. No commission or charges have been paid to the director and the former director in respect of the charges.

(c) Tong Sun, a subsidiary of the Company, Guozheng Economic Development Company Limited ("Guozheng") and Beijing Finance Street Construction & Development Co. Ltd. ("Finance Street Development") are the joint venture partners of BJCSB (the "Joint Venture Partners"). The registered capital of BJCSB was contributed by the Joint Venture Partners as follows:

Name of Joint Venture Partner	**Contribution percentage**
Tong Sun	66%
Guozheng	34%

The Joint Venture Partners entered into an agreement in 1999 and the parties agreed that:

i) Guozheng would give up its equity interest in BJCSB and Tong Sun would be entitled to 100% economic interest of BJCSB; and

ii) Guozheng would be entitled to a fixed return by way of ownership right of office space of gross floor area of 7,000 square meters of the property under development for sale ("Fixed Return on the Property") *(Note 17)*.

Upon execution of the agreement, BJCSB became a wholly owned subsidiary of Tong Sun and the previous capital contribution of HK$46,642,000 (2005: HK$46,642,000) made by Guozheng was classified as current liabilities in "other payables". The total amount due from Guozheng is interest-free and has no fixed terms of repayment.

In 2004, BJCSB has entered into another agreement with Guozheng to buy back the Fixed Return on the Property with the total consideration of RMB109,060,000. As at 31 December 2006, an amount of RMB107,000,000 (2005: RMB107,000,000) was paid to Guozheng from BJCSB as advance payment on its entitlement to Fixed Return on the Property.

(d) During the year ended 31 December 2003, the Company had entered into a management contract with Million Rich Consultants Limited, of which one of the Company's substantial shareholders, Wei Ping, is also a director, for the provision of administrative and financial advisory services to the Group. Service fee in an amount of approximately HK$3,600,000 (2005: HK$3,600,000) was paid during the year ended 31 December 2006.

31. SHARE OPTION

Pursuant to a shareholders' resolution passed on 14 June 2002, the share option scheme of the Company ("2000 Share Option Scheme"), which was approved by its shareholders on 25 January 2000 enabling the directors to grant options to eligible employees, including directors of the Company and/or its subsidiaries to subscribe for shares in the Company was terminated.

A new share option scheme (the "New Share Option Scheme") was approved and adopted on 14 June 2002. The New Share Option Scheme is valid and effective for a period of 10 years after the date of adoption. Outstanding options granted pursuant to the 2000 Share Option Scheme shall continue to be subject to the provisions of the 2000 Share Option Scheme and the adoption of the New Share Option Scheme will not in any event affect the terms of such outstanding options.

The New share Option Scheme was adopted for the purpose of attracting, retaining and motivating any full-time employees and directors (including non-executive directors and independent non-executive directors) of the Group, part time employees working with weekly working hours of 10 hours and above of the Group and the Group's advisors, consultants, providers of goods and/or services and other persons who have contributed to the Group or their trustee (the "Participants") to perform their best in achieving the goals of the Group and at the same time allow them to enjoy the results of the Group attained through their effort and contributions. Under the New Share Option Scheme, the board of directors of the Company may grant options to the Participants to subscribe for shares of the Company.

Subject to the terms of the New Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other schemes should not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of such limit. Notwithstanding the above, the maximum number of shares in respect of which options may be granted under the New Share Option Scheme and any other share option schemes of the Company must not exceed 30% (or such higher percentage as may be allowed under the Rules Governing the Listing of Securities on the Stock Exchange) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to each participant in aggregate in any 12-month period shall not exceed 1% of the total number of shares in issue, any further grant to that particular participant shall be subject to approval of shareholders of the Company in general meeting with such participant and his or her associates abstaining from voting.

Options granted pursuant to the New Share Option Scheme must be accepted within 28 days of the date of option offered, upon payment of HK$1 by way of consideration. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors of the Company but in any event not exceeding 10 years. The exercise price per share will be determined by the board of directors of the Company, but in any event shall not be less than the highest of (i) the average closing price of the shares as quoted in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the option offered, (ii) the closing price of the shares as quoted in the Stock Exchange's daily quotations sheet on the date of the option offered, and (iii) the nominal value of the shares.

No option has been granted to any directors or employees under the New Share Option Scheme since its adoption.

As at 31 December 2006 and 2005, no share options remained outstanding under the 2000 Share Option Scheme.

32. CONTINGENT LIABILITIES

(a) As at 31 December 2006, the financial guarantee given to bank in respect of the loans of the amounts USD2,500,000 which equivalent to approximately HK$19,433,000 (2005: USD2,500,000 which equivalent to approximately HK$19,383,000) granted to Beijing New Rank Real Estate Development Co., Limited (BJ New Rank"), a former subsidiary of the Group. As at 31 December 2006, the facilities utilised by BJ New Rank was approximately RMB6,990,000 (2005: RMB7,233,000).

(b) Pursuant to the agreement entered into between the BJCSB and CNC as mentioned in Note 2, the construction of the property under development for sale shall be completed on 30 June 2005 and its ownership shall be delivered to CNC before 30 December 2005. Relevant penalties apply upon the late delivery of ownership as follows:

i. 0.03% interest per day based on money received by the Group upon late delivery within 90 days from 30 December 2005;

ii. if late delivery is more than 90 days from 30 December 2005, CNC will have a right to either terminate the agreement and BJCSB will be required to return all installments without interest and pay damages at the rate of 10% of the money received within 30 days upon receiving notice from CNC; or require BJCSB to pay damages at 0.03% interest per day on the installments received for the period from 30 December 2005 to the date of delivery.

33. POST BALANCE SHEET EVENT

(a) Pursuant to the agreement signed with the subscriber of the 2005 Convertible Bond (the "Subscriber") on 26 March 2007, the Company has agreed with the subscriber to extend the maturity date of the 2005 Convertible Bond to 31 August 2007 and revise its terms. An amount of HK$7,500,520 out of the principal of the 2005 Convertible Bond shall be convertible into the Company's ordinary shares (the "Share") at the agreed conversion price of HK$0.138 (as revised from HK$0.30) per Share and, from 1 March 2007 onwards, bear interest at Prime Rate. The remaining amount of HK$5,219,480 out of the principal of the 2005 Convertible Bond shall not be convertible into Shares and, from 1 March 2007 onwards, bear interest at the Prime Rate plus 2%. Apart from the above, all other terms and conditions of the 2005 Convertible Bond remain unchanged.

(b) Pursuant to the subscription agreement dated 23 February 2007, the subscriber has agreed to subscribe for two convertible bonds upon completion thereof: (i) one convertible bond in the principal amount of up to HK$40,000,000; and (ii) one convertible bond in the principal amount of HK$23,055,000 in accordance with the terms and conditions thereof. Apart from the principal amount, the two convertible bonds have the same terms and conditions.

(c) Pursuant to another subscription agreement dated 23 February 2007, the subscriber has agreed to subscribe for the convertible bonds up to an aggregate principal amount of HK$24,000,000.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2006 are as follows:

Name of subsidiaries	Class of share held	Place of incorporation/ establishment	Place of operation	Particular of issued share capital/paid up registered capital	Attributable equity interest of the Group	Principal activities
Direct subsidiary						
NR (BVI) Holdings Limited	Ordinary	British Virgin Islands	Hong Kong	US$47,001	100	Investment holding
Polywell Finance Corporation	Ordinary	British Virgin Islands	Hong Kong	US$1	100	Inactive
Indirect subsidiary						
BJCSB	Contributed capital	PRC	PRC	US$25,000,000	100	Property development
New Rank Services Limited	Ordinary	Hong Kong	Hong Kong	HK$2	100	General management
New Rank (BVI 2) Limited	Ordinary	British Virgin Islands	Hong Kong	US$36,000	100	Investment holding
Precise Assets Limited	Ordinary	British Virgin Islands	Hong Kong	US$1	100	Inactive
Team Success Management Limited	Ordinary	British Virgin Islands	Hong Kong	US$1	100	Investment holding
Tong Sun	Ordinary	Samoa	Hong Kong	US$49 Class A Ordinary US$51 Class B Ordinary	51% *(Note (i))*	Investment holding
Very Best Investments Limited	Ordinary	British Virgin Islands	Hong Kong	US$1	100%	Inactive

Notes:

(i) Pursuant to the subscription agreement dated 8 May 2003, Starry Joy holding 49% of the equity interest of Tong Sun is entitled to a preferred dividend from Tong Sun in the sum of up to HK$94.6 million together with repayment in full of its loan and loan from Poly (Hong Kong) Investments Limited ("Poly HK") and interest accrued thereon in priority over the preferred dividend payment to the Group by Tong Sun, which is up to HK$136 million. After the payment of the aforesaid preferred dividends and repayment of all loans from Starry Joy and Poly HK, any further dividend and/or distribution to be declared by Tong Sun will be paid to the Group and Starry Joy in the proportion of 75% and 25%.

(ii) Other than BJCSB is a Sino-Foreign Co-operative joint venture, all other subsidiaries are limited liability company.

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY FOR THE SIX MONTHS ENDED 30 JUNE 2007

The following is the unaudited financial statements of the Company for the six months ended 30 June 2007 as extracted from the 2007 interim report of Company

Consolidated Income Statement
For the six months ended 30 June 2007

	Notes	**2007** *HK$'000* (Unaudited)	**2006** *HK$'000* (Unaudited)
TURNOVER	*3*	2,074,010	—
COST OF SALES		(1,787,569)	—
GROSS PROFIT		286,441	—
Other revenue	*4*	299,817	2
Administrative expenses		(86,167)	(7,671)
PROFIT/(LOSS) FROM OPERATIONS	*4*	500,091	(7,669)
Finance costs	*5*	(8,623)	(5,238)
PROFIT/(LOSS) BEFORE TAXATION		491,468	(12,907)
Taxation	*6*	(166,331)	—
PROFIT/(LOSS) FOR THE PERIOD		325,137	(12,907)
ATTRIBUTABLE TO:			
Equity holders of the Company		325,137	(12,907)
Minority interests		—	—
		325,137	(12,907)
DIVIDENDS	*7*	94,600	—
EARNINGS /(LOSS) PER SHARE (HK CENTS)			
Basic	*8*	84.83	(4.75)
Diluted	*8*	66.52	—

Condensed Consolidated Balance Sheet
At as 30 June 2007

	Notes	30.6.2007 HK$'000 (Unaudited)	31.12.2006 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	2,125	1,992
Investment properties	10	750,000	—
		752,125	1,992
CURRENT ASSETS			
Property under development for sale		—	1,720,280
Prepayments and other receivables	11	24,034	185,406
Accounts receivable	12	77,571	—
Bank balances and cash		37,944	64,084
		139,549	1,969,770
CURRENT LIABILITIES			
Trade payables	13	98,120	183,866
Accruals and other payables		51,798	142,971
Advances from a customer		—	1,512,166
Obligations under finance lease		73	—
Bank borrowings	14	90,000	90,000
Other borrowings	15	76,219	210,000
Taxes payable	6	113,007	—
Provisions	17	15,484	15,484
		444,701	2,154,487
NET CURRENT LIABILITIES		(305,152)	(184,717)
TOTAL ASSETS LESS CURRENT LIABILITIES		446,973	(182,725)

Condensed Consolidated Balance Sheet
At as 30 June 2007

	Notes	**30.6.2007** *HK$'000* (Unaudited)	**31.12.2006** *HK$'000* (Audited)
NON-CURRENT LIABILITIES			
Trade payables	*13*	33,679	—
Convertible bonds	*16*	63,959	11,977
Obligations under finance leases		274	—
Other borrowings	*15*	110,000	—
Preference shares dividend payable	*7*	94,600	—
Taxes payable	*6*	108,852	—
		411,364	11,977
NET ASSETS/(LIABILITIES)		35,609	(194,702)
CAPITAL AND RESERVES			
Ordinary shares of HK$0.001 each		272	272
Reserves		35,337	(194,974)
		35,609	(194,702)

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

	Share capital	Share premium	Contributed surplus	Property revaluation reserve	Convertible bond equity reserve	Translation reserve	Preferred share dividend	Retained profit/ (Accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	272	20,773	4,755	—	226	7,758	—	(228,486)	(194,702)
Equity reserve of convertible bond was transferred to liabilities as the convertible bond was extended	—	—	—	—	(226)	—	—	—	(226)
Preferred share dividend declared	—	—	—	—	—	—	(94,600)	—	(94,600)
Profit for the period	—	—	—	—	—	—	—	325,137	325,137
At 30 June 2007	272	20,773	4,755	—	—	7,758	(94,600)	96,651	35,609
At 1 January 2006	272	20,773	4,755	—	226	3,134	—	(195,577)	(166,417)
Exchange differences arising on translation of foreign operations	—	—	—	—	—	4,624	—	—	4,624
Loss for the period	—	—	—	—	—	—	—	(32,909)	(32,909)
At 30 June 2006	272	20,773	4,755	—	226	7,758	—	(228,486)	(194,702)

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	2007 *HK$'000* (Unaudited)	**2006** *HK$'000* (Unaudited)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	490,740	(1,962)
NET CASH USED IN INVESTING ACTIVITIES	(450,601)	(56)
NET CASH USED IN FINANCING ACTIVITIES	(66,279)	(48,124)
DECREASE IN CASH AND CASH EQUIVALENTS	(26,140)	(50,142)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	64,084	125,904
CASH AND CASH EQUIVALENTS AT END OF PERIOD	37,944	75,762
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	37,944	75,762

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

The condensed financial statements of New City (China) Development Limited (the "Company") and its subsidiaries (collectively known as the "Group") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

b. Principal accounting policies

The condensed consolidated financial statements have been prepared on a going concern basis. Going concern principal is highly depended on a new loan of RMB500,000,000 and the extension of the Starry Joy Loan and the Tritime CB.

The condensed consolidated financial statements have been prepared under the historical cost convention except for certain financial assets and investment property which are stated at fair values. The accounting policies and basis of preparation adopted for the preparation of the interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2006.

The HKICPA has issued a number of new and revised HKFRSs, which term collectively included HKASs and Interpretations, that are effective or available for early adoption for accounting periods beginning on or after 1 January 2007. The Group has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2007 on the basis of HKFRSs currently in issue, which the Group believes, do not have a significant impact on the Group's prior year financial position and results of operations.

The new and revised HKFRSs that will be effective or are available for voluntary adoption in the annual financial statements for the year ending 31 December 2007 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of the interim financial statements. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of the interim financial statements. The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period.

Up to the date of issue of the interim financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2007 and which have not been adopted in the interim financial statements.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

b. **Principal accounting policies** *(Continued)*

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
HKAS 23	Borrowing Cost	1 January 2009
HKFRS 8	Operating Segments	1 January 2009
HK(IFRIC)-Int 12	Service Concession Arrangements	1 January 2008

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new amended disclosures, it is unlikely to have a significant impact on the Group's result of operations and financial position.

c. **Revenue recognition**

Revenue comprises the fair values of the consideration received or receivable for the sales of properties in the ordinary course of the Group's activities, revenue is shown net of discount. Revenue is recognised as follows:

(i) Revenue from sales of properties is recognised when the significant risks and rewards of properties have been transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectibility of related receivables is reasonably assured. Deposits and installments received on properties sold prior to the date of revenue recognition are included in the condensed consolidated balance sheet as advances from a customer under current liabilities.

(ii) Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

d. **Investment properties**

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

d. **Investment properties** *(Continued)*

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is determined by professional valuation conducted as at the balance sheet date. Changes in fair values are recognised in the income statement.

2. **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements used in preparing the accounts are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carry amounts of assets and liabilities mainly include those related to property development activities.

(a) Current taxation and deferred taxation

The main business activities of the Group is subject to income taxes in the PRC. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Land appreciation taxes

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being proceeds of sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

The subsidiary of the Group engaging in property development business in the PRC are subject to land appreciation taxes, which have been included in the cost of sales. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its land appreciation tax returns with various tax authorities. According, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the cost of sales and provisions of land appreciation taxes in the period in which such determination is made.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(c) Valuation of investment properties

The fair value of each investment property is individually determined at each balance sheet by independent valuers based on a market value assessment, on an existing use basis. The valuers have relied on the discounted cash flow analysis and the capitalisation of income approach as their primary methods, supported by the direct comparison method. These methodologies are based upon estimates of future results and a set of assumptions specific to each property to reflect its tenancy and cashflow profile. The fair value of each investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

3. TURNOVER

Turnover represents the total sales proceed of properties received and receivable from customer.

An analysis of turnover and other revenue is as follows:

	Six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
Turnover:		
Sales of properties	2,074,010	—

4. PROFIT/(LOSS) FROM OPERATIONS

	Six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	286	476
Costs of properties sold	1,787,569	—
Bad debts written off	8,834	—
Provision for doubtful debt	67,005	—
and after crediting:		
Interest income	—	2
Gain on disposal of property, plant and equipment	90	—
Gain on revaluation of investment properties	299,727	—

5. FINANCE COSTS

	Six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
Interest on:		
Bank loans and overdrafts wholly repayable within five years	5,734	4,939
Other loans wholly repayable within five years	5,273	5,000
Convertible bond	240	235
Finance leases	5	3
Arrangement fee of convertible bond	3,105	—
Total borrowing costs	14,357	10,177
Less: Amounts included in costs of properties sold	(5,734)	—
Amounts capitalised	—	(4,939)
	8,623	5,238

6. TAXATION

	Six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
Income tax expenses		
Hong Kong profit tax	—	—
PRC enterprise income tax	62,630	—
PRC business tax	103,701	—
	166,331	—
Taxation in balance sheet represent:		
— PRC enterprise income tax	62,630	—
Less: Payment in previous year	(7)	—
— PRC business tax	103,701	—
Less: Payment in previous year	(27,375)	—
— PRC land appreciation tax	82,340	—
— PRC salary tax	570	—
	221,859	—
Taxation to be paid within 1 year classified as current liabilities		
— PRC enterprise income tax	49,472	—
— PRC business tax	47,972	—
— PRC land appreciation tax	14,993	—
— PRC salary tax	570	—
	113,007	—
Taxation to be paid after 1 year classified as non-current liabilities	108,852	—

The Company's subsidiaries operating in Hong Kong are subject to profits tax at the rate of 17.5% for the six months ended 30 June 2007 (six months ended 30 June 2006: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong. No provision for Hong Kong Profits Tax has been made as the Group has no assessable income for Hong Kong Profits Tax for the six months ended 30 June 2007 and 2006.

6. TAXATION *(Continued)*

During the period, the Group's subsidiary company operating in the PRC are subject to enterprise income tax at a rate of 33% of which 30% is levied by Central Government and 3% is levied by Province respectively (six months ended 30 June 2006: 33%). Pursuant to the document (京國稅函[2002]659號) dated 22 November 2002 issued by Beijing Municipal Office, State Administration Taxation, P.R. China ("BJ Tax") (北京市國家稅務局), Beijing Zhong Zheng Real Estate Development Co., Ltd. ("BJCSB") is obligated to make a partial payment of PRC enterprise income tax of which is levied at the statutory tax rate 33% on 10% of the sales proceed received in advance from the customer which is subjected to final clearance upon the finalisation work of construction account to be performed by third party.

The Group had no significant unprovided deferred taxation as at 30 June 2007 and 30 June 2006.

7. DIVIDENDS

		Six months ended 30 June	
		2007	**2006**
	Note	*HK$'000*	*HK$'000*
Ordinary shares		—	—
Preference shares	*(i)*	94,600	—
		94,600	—

Note:

(i) Pursuant to the subscription agreement dated 8 May 2003, Starry Joy, holding 49% of the equity interest of Tong Sun Limited ("Tong Sun"), is entitled to a preferred dividend from Tong Sun in the sum of up to HK$94,600,000 together with repayment in full of its loan and loan from Poly (Hong Kong) Investments Limited ("Poly HK") and interest accrued thereon in priority over the preferred dividend payments to the Group by Tong Sun.

8. EARNINGS/(LOSS) PER SHARE

The calculation of the basic profit per share for the six months ended 30 June 2007 is based on the net profit after deducted preference shares dividend attributable to equity shareholders of the Company of HK$230,537,000 (six months ended 30 June 2006: Loss: HK$12,907,000) and the weighted average number of 271,758,000 ordinary shares in issue during the six months ended 30 June 2007 (six months ended 30 June 2006: 271,758,000 ordinary shares).

The calculation of the diluted profit per share for the six months ended 30 June 2007 is based on the net profit before bond interest (net of tax) and after deducting preference shares dividend attributable to equity shareholders of the Company of HK$230,777,000 and the weighted average number of 346,934,634 ordinary shares after considering the effects of converting all convertible bonds to ordinary shares upon maturity.

In last year, no diluted loss per share has been presented for the period ended 30 June 2006 as there were no diluting events existed during the period.

9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$419,000 (30 June 2006: HK$56,000) on acquisition of property, plant and equipment.

10. INVESTMENT PROPERTIES

	30.6.2007	**31.12.2006**
	HK$'000	*HK$'000*
Acquired as consideration property	450,273	—
Fair value gain	299,727	—
End of period	750,000	—

Investment properties represents the consideration properties transferred from the buyer of China Securities Plaza as part of the proceeds. Significant risks and rewards have been transferred although legal title has not been passed.

The valuations of investment properties are performed by management at each reporting date and reviewed at least annually by external valuer. As at 30 June 2007, investment properties were revalued by Asset Appraisal Limited, an independent and professionally qualified valuer, using discounted cash flow projections.

The Group's interest in investment properties at their net book values are analysed as follows:

	30.6.2007	**31.12.2006**
	HK$'000	*HK$'000*
In the PRC, held on:		
Leases of between 10 to 50 years.	750,000	—

11. PREPAYMENTS AND OTHER RECEIVABLES

	Note	30.6.2007 HK$'000	31.12.2006 HK$'000
Interest-free loan		35,254	35,254
Amount due from a minority equity owner of a subsidiary of the Group		—	107,000
Advance due from a minority equity owner of a subsidiary of the Group		12,617	12,617
Amount due from a former director		2,460	2,460
Temporary advances		16,671	25,505
Prepaid expenses and deposits		2,287	2,570
Amount due from a bond holder for unpaid Convertible bond	*(i)*	21,750	—
		91,039	185,406
Less: Provision for doubtful debt		67,005	—
		24,034	185,406

Notes:

(i) Unpaid convertible bonds is related to issuance of convertible bonds with details in note 16(iii). HK$6,000,000 has been received by the Group in July 2007.

12. ACCOUNTS RECEIVABLE

Accounts receivable represents proceeds receivable from sale of China Securities Plaza. Customers will repay according to the Sales and Purchase Agreement signed on 23 December 2003.

13. TRADE PAYABLES

The aged analysis of trade payables as at 30 June 2007 is as follows:

	30.6.2007	31.12.2006
	HK$'000	*HK$'000*
Within 3 months	25,429	73,297
4 – 6 months	—	—
7 – 9 months	33,679	—
10 – 12 months	—	—
Over 1 year	72,691	110,569
	131,799	183,866

Trade Payables of HK$33,679,000 is related to cost of construction of China Securities Plaza. Finalization of this project cost has to be done by appointed professional and completed in April 2009 and this will affect the timing of payment of construction works balance (HK$33,679,000). Therefore, such project cost is classified as non-current liabilities.

14. BANK BORROWINGS

The secured bank borrowings as at 30 June 2007 is as following:

	30.6.2007	31.12.2006
	HK$'000	*HK$'000*
Within 1 year	90,000	90,000
Over 1 year	—	—
	90,000	90,000

The bank borrowings are denominated in Renminbi and is bound by an agreement signed among the Company, the bank and China Network Communications Group Corporation ("CNC"). It was agreed that the total amount is repayable in two portions:

(i) RMB30,000,000 become repayable after the receipt of the eighth installment payment from CNC under the completion of transfer of legal title of China Securities Plaza;

(ii) The repayment of the remaining RMB60,000,000 will be negotiated after completion of exchange of properties between the Company and CNC.

In accordance with the opinion issued by the 北京市京元律師事務所 (the "Beijing Law Firm"), the Company currently does not have any risk of litigation from China Construction Bank regarding the CCB Loan for the reason that the Company's rights are protected by the agreements signed by between the Company and China Construction Bank.

15. OTHER BORROWINGS

	Note	30.6.2007 HK$'000	31.12.2006 HK$'000
within 1 year:			
Overdue interest bearing loan	*(i), (iii), (iv), (v)&(vi)*	71,000	70,000
Interest bearing loan	*16*	5,219	—
Interest bearing loan from the then subscriber of the convertible bond		—	30,000
		76,219	100,000
After 1 year:			
Secured interest-free loan	*(i), (ii)&(vi)*	110,000	110,000

Notes:

(i) The above loans, except for an amount of HK$1,000,000 as mentioned in Notes (v), represent the loans granted to the Group pursuant to the disposal of 49% interest in Tong Sun.

(ii) As at 30 June 2007, an amount of HK$110,000,000 (2006: HK$110,000,000) is secured on the shares in the Company held by a director and a former director. It was originally interest-free and for a term of 2 years from June 2003 repayable on maturity and was to be applied exclusively to finance the working capital requirements of the property under development for sale . On 25 October 2005, a second supplemental agreement ("Second Supplemental Agreement") was signed which extended the repayment date. Pursuant to the Second Supplemental Agreement, Tong Sun agreed to transfer to Starry Joy Properties Investment Limited ("Starry Joy") such portion of the office building owned by CNC located at Xicheng District, Beijing ("Consideration Property") to be transferred to BJCSB pursuant to the agreement dated 23 December 2003, the Consideration Property at an agreed value approximately RMB450,000,000 will be transferred to BJCSB within four months after completion of the disposal of the China Securities Plaza. Loan from Starry Joy amounted HK$110,000,000 will be repaid by such portion of the Consideration Property at an agreed market valuation at repayment date.

(iii) As at 30 June 2007, an amount of HK$55,000,000 (2006: HK$55,000,000) is secured on the shares in the Company held by a director and a former director. It was originally interest-free and for a term of 2 years from June 2003 repayable on maturity and was to be applied exclusively to finance the working capital requirements of the property under development for sale. On 25 October 2005, a second supplemental agreement was signed which extended the repayment date up to 31 December 2005 and the Group is under negotiation to further extend the repayment date. Due to the extension of repayment, the balance of HK$55,000,000 became interest bearing at an interest rate of 10% per annum as from 1 July 2005. The said loan was overdue since 31 December 2005 and the management of the Group is negotiating with the creditor for the rescheduling or extension of the amounts due to the creditor.

15. OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(iv) As at 30 June 2007, an amount of HK$15,000,000 (2006: HK$15,000,000) is unsecured was originally for a term of 2 years from June 2003 and borne interest at the rate of 6% per annum. Further, it was originally repayable in one lump sum upon maturity and was to be applied to finance the general working capital and settlement of trade payable of the Group. On 25 October 2005, a supplemental facility letter was signed to extend the repayment date up to 31 December 2005 and the interest rate was revised to 10% per annum with effect from 1 July 2005. The said loan was overdue since 31 December 2005 and the management of the Group is negotiating with the creditor for the rescheduling or extension of the amounts due to the creditor.

(v) As at 30 June 2007, an amount of HK$1,000,000 is unsecured was originally for a term of 3 months from 5 February 2007 and borne interest at the rate of 9.75% per annum. The said loan was overdue since 4 May 2007 and the management of the Group is negotiating with the creditor for the rescheduling or extension of the amounts due to the creditor.

(vi) The Group's other borrowings are denominated in HK$.

16. CONVERTIBLE BONDS

The convertible bonds recognised in the balance sheet is calculated as follows:

	Note	30.6.2007 HK$'000	31.12.2006 HK$'000
Carrying amount at the beginning of the period		11,977	11,866
Interest expenses	*5*	240	471
Interest paid		(351)	(360)
Transfer from equity component		226	—
Convertible bonds issue	*(ii) & (iii)*	57,086	—
Transfer to the loan	*15*	(5,219)	—
Liability component at 30 June 2007		63,959	11,977

Notes:

(i) On 1 March 2005, the Company issued a convertible bond bearing interest at 3% per annum with a principal amount of HK$12,000,000 ("2005 Convertible Bond"), which is convertible into the Company's ordinary shares at a conversion price of HK$0.30 per share. The convertible bond matures two years from the issue date. On 1 March 2007, such convertible bond was extended in the amount of approximately HK$7,500,000, which is convertible into the Company's ordinary shares at a conversion price of HK$0.138 per share and bearing interest of the prime lending rate from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollar deposits (the "Prime Rate"). On 17 August 2007, the Company receive an intention letter from Tritime Holdings Limited for agreeing to extend the maturity date of convertible bond to 28 February 2009.

16. CONVERTIBLE BONDS *(Continued)*

Notes: (Continued)

(ii) As at 31 December 2006, an amount of HK$30,000,000 were unsecured, bearing interest of the Prime Rate plus 4% per annum and represented the consideration of the convertible bond received in advance. Such balance has been transferred to convertible bond together with the arrangement fee and interest accrued on 14 June 2007 at the amount of HK$33,403,150. The convertible bond is convertible into the Company's ordinary shares at a conversion price of HK$0.138 per share. On 21 August 2007, the Company receive an intention letter from Crown Champion Investments Limited ("Crown Champion") for agreeing to extend the maturity date of convertible bond to 28 February 2009.

(iii) On 28 June 2007, issuance of another convertible bond at the amount of HK$23,055,000 was completed. The convertible bond is convertible into the Company's ordinary shares at a conversion price of HK$0.138 per share. It will bear interest of the Prime Rate plus 4% per annum. On 21 August 2007, the Company receive an intention letter from Crown Champion for agreeing to extend the maturity date of convertible bond to 28 February 2009. At the balance sheet date, consideration at the amount of HK$21,750,000 is still unpaid by the subscriber and is included under other receivables.

(iv) All the convertible bonds will be matured in August 2007. Therefore, the equity component of the convertible bond was immaterial and the whole amount was treated as liabilities.

17. PROVISIONS

The amount represents the provision for the claim from 北京太陽紅投資諮詢有限公司 ("Beijing Tai Yang Hong") an independent third party. On 19 January 2006, the Beijing Arbitration Committee made an arbitration award in favor of Beijing Tai Yang Hong that the agreement dated 6 June 2003 for the purchase of the entire 12th Floor of the China Securities Plaza entered into between Beijing Tai Yang Hong and BJCSB, the 51% indirect owned subsidiary of the Group be cancelled and that the sum of approximately RMB14,000,000 being refund of the purchase price paid and RMB800,000 being damages be paid by BJCSB to Beijing Tai Yang Hong. The amount of HK$15,480,000 was provided in the financial statements and the management has considered the level of provision for any damages and claims made in this respect is sufficient.

18. CONTINGENT LIABILITIES

(a) The Group has given guarantees to banks in respect of the loans of the amounts USD2,500,000 and RMB14,000,000 granted to Beijing New Rank Real Estate Development Co., Limited, a former subsidiary of the Group.

(b) On 23 December 2003, the Group had entered into an agreement with CNC for the construction of China Securities Plaza. Pursuant to the agreement, the construction should be completed on 30 June 2005 and its ownership should be delivered to CNC before 30 December 2005. Relevant penalties will be required upon the late delivery of ownership as follows:

0.03% interest per day based on money received by the Group upon the late delivery within 12 months from the day of risk and reward of property which have been transferred on 25 December 2006.

(c) On 19 January 2006, the Beijing Arbitration Committee made an arbitration award in favor of Beijing Tai Yang Hong that the agreement dated 6 June 2003 for the purchase of the entire 12th Floor of the China Securities Plaza entered into between Beijing Tai Yang Hong and BJCSB, the 51% indirect owned subsidiary of the Group be cancelled and that the sum of approximately RMB14,000,000 being refund of the purchase price paid and RMB800,000 being damages be paid by BJCSB to Beijing Tai Yang Hong. BJCSB has applied to the People's Court in Beijing for stay of enforcement of such award.

19. OPERATING LEASE COMMITMENTS

At 30 June 2007, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	30.6.2007	**31.12.2006**
	HK$'000	*HK$'000*
Within one year	1,062	1,961
In second to fifth years, inclusive	—	81
	1,062	2,042

20. FOREIGN EXCHANGE EXPOSURE

The majority of the Group's operations are located in the PRC and the main operational currencies are Hong Kong Dollars and Renminbi. The Company is paying regular and active attention to Renminbi exchange rate fluctuation and consistently assess exchange risks.

21. RELATED PARTY TRANSACTIONS

Pursuant to agreement signed in 2004 by BJCSB and Guozheng Economic Development Company Limited ("Guozheng"), a joint venture partner for development China Securities Plaza, for buy back of 7,000 square meters of China Securities Plaza from Guozheng at a consideration of RMB109,060,000 of which was included as cost of sale of properties.

C. MANAGEMENT DISCUSSION AND ANALYSIS OF THE COMPANY FOR EACH OF THE LAST 3 FINANCIAL YEARS ENDED 31 DECEMBER 2006 AND THE SIX MONTHS ENDED 30 JUNE 2007

C-1. FINANCIAL PERIOD ENDED 30 JUNE 2007

During the six-month period under review, the Group generated turnover and net profit for the period amounted to approximately HK$2,074,010,000 and HK$325,137,000 respectively, whereas the Group had no turnover and net loss for the first half of 2006 was HK$12,907,000.

Dividend

In accordance with the supplemental agreement to the subscription agreement dated 8 May 2003, a preferred dividend of HK$94,600,000 was declared. Apart from this, the Board does not recommend the payment of interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: nil).

Business Review

During the period, the sale of China Securities Plaza is deemed to have been completed. It is planned to lease out the consideration property in order to generate rental income in future.

Arrangements for the resumption of trading of shares

Trading in the shares has been suspended on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 30 December 2003 at the request of the Company pending release of an announcement in relation to a major transaction of the Company involving China Securities Plaza. The Company was placed into the second stage of the delisting procedures on 12 January 2005 as the Stock Exchange is concerned about whether the Company meets the sufficient assets and operations requirements under Rule 13.24 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company is now actively preparing further information for submission to the Stock Exchange in order to substantiate that it meets the requirements under Rule 13.24 of the Listing Rules. Trading in the shares will remain suspended pending fulfillment of any conditions which may be imposed on the Company by the Stock Exchange and the Company will make an announcement upon resumption of trading.

Prospect

Seeing the growing demand for office leases in the Central Business District and that the consideration property is of A class standard, the Company currently plans to lease out the parking spaces together with the office building of the consideration property. The Company believes that this will generate additional business opportunity to the Company. Furthermore, the Board is in negotiation with some of shareholders of the Company and independent financial institutions for certain fund raising proposal in order to strengthen the financial position and also commence to identify new investment projects with a view to consolidate its operations and income stream.

FINANCIAL REVIEW

Liquidity, Financial Resources and Funding Requirements

As at 30 June 2007, the Group had obligations under hire purchase contracts of approximately HK$347,000 (as at 31 December 2006: nil) and the bank borrowings amounted to approximately RMB90,000,000 (equivalent to approximately HK$90,000,000) (as at 31 December 2006: approximately RMB90,000,000 and equivalent to approximately HK$90,000,000), that is secured and interest-bearing.

The loan of HK$165,000,000 as at 30 June 2007 (as at 31 December 2006: HK$165,000,000) was secured on the shares in the Company held by a director and a former director was interest free before 1 July 2005 and extended the repayment date up to 31 December 2005 into two portions: (i) repayment by cash amounting to HK$55,000,000 was interest bearing at 10% per annum; (ii) the balance of which amounting to HK$110,000,000 will transfer such aggregate appraisal value of property to the borrower. Other unsecured loan of HK$15,000,000 as at 30 June 2007 (as at 31 December 2006: HK$15,000,000) was interest bearing at 10% per annum. The loan of HK$5,219,000 as at 30 June 2007 (as at 31 December 2006: nil) was interest bearing at the rate equal to the Prime Rate plus 4%. And, the short term loan of HK$1,000,000 as at 30 June 2007 (as at 31 December 2006: nil) was interest bearing at the rate equal to Prime Rate plus 2%.

As at 30 June 2007, the Group's total assets was approximately HK$891,674,000 (as at 31 December 2006: approximately HK$1,971,763,000) whereas total debts amounted to approximately HK$276,219,000 as at 30 June 2007 (as at 31 December 2006: approximately HK$300,000,000). The gearing ratio (total debts/ total assets of the Group) was 0.31 as at 30 June 2007 (as at 31 December 2006: 0.15). As at 30 June 2007, the cash and bank balances was approximately HK$37,944,000 (as at 31 December 2006: approximately HK$64,085,000) and the current ratio (current assets/ current liabilities) was 0.31 as at 30 June 2007 (as at 31 December 2006: 0.91).

Foreign Exchange Exposure

The majority of the Group's operations are located in the PRC and the main operational currencies are Hong Kong Dollars and Renminbi. The Company is paying regular and active attention to Renminbi exchange rate fluctuation and consistently assess exchange risks.

Pledge of assets

As at 30 June 2007, the Group had pledged its properties under development with an aggregate net book value of approximately HK$1,631,959,000 (as at 31 December 2006: approximately HK$1,720,280,000) to secure bank loans granted approximately HK$90,000,000 (as at 31 December 2006: approximately HK$90,000,000).

C-2. FINANCIAL YEARS ENDED 31 DECEMBER 2006

OVERALL PERFORMANCE

During the year under review, with the continued financial support from CNC under the agreement dated 23 December 2003 and the effective management of the Board, the Group succeed in maintaining the smooth progress of the construction of China Securities Plaza.

ARRANGEMENTS FOR THE RESUMPTION OF TRADING OF SHARES

Trading in the shares has been suspended on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 30 December 2003 at the request of the Company. The Company has yet to demonstrate to the satisfaction of the Stock Exchange that it has sufficient level of operation or tangible assets of sufficient value to warrant the continued listing of the shares on the Stock Exchange pursuant to Rule 13.24 of The Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules"). Accordingly, the Company was placed into the second stage of the delisting procedures on 12 January 2005. The Company is now actively preparing further information for submission to the Stock Exchange in order to substantiate that it meets the requirements under Rule 13.24. Trading in the shares will remain suspended pending fulfillment of any conditions which may be imposed on the Company by the Stock Exchange.

FINANCIAL REVIEW

Result

In the year of 2006, the Group has not reported any turnover since China Securities Plaza was still in the progress of disposal. The Group's net loss for the year was approximately HK$32,909,000 (2005: net loss of HK$21,026,000). The basic loss per share for the year was 12.11 cents (2005: loss per share of 7.70 cents).

Administrative expenses is HK$23,933,000 for the year of 2006. Finance costs of HK$10,473,000 represented mainly interest expenses on other borrowing.

Liquidity, Financial Resources and Funding Requirements

The losses of the Group increased because the China Securities Plaza is still in the construction progress and neither profit nor turnover was recognised during the year. As at 31 December 2006, the net liabilities of the Group increased by 17.0% to HK$194,702,000 from HK$166,417,000 as at 31 December 2005.

As at 31 December 2006, the cash and bank balances decreased by approximately HK$61,820,000 mainly because of repayment of bank borrowings and construction cost payables and the current ratio (current assets/ current liabilities) was 0.91 (as at 31 December 2005: 0.92).

As at 31 December 2006, the Group's bank borrowings amounted to approximately RMB90,000,000 equivalent to approximately HK$90,000,000 (2005: approximately RMB170,000,000 equivalent to approximately HK$163,462,000), are secured and repayable within one year.

Other borrowings of HK$210,000,000 (2005: HK$210,000,000) as at 31 December 2006 are repayable within one year. The loan of HK$165,000,000, secured on the shares in the Company held by a director and a former director, (2005: HK$165,000,000) was interest free before 1 July 2005 and extended the repayment date up to 31 December 2005 into two portions: (i) repayment by cash HK$55,000,000 was interest bearing at 10% per annum; (ii) the balance of which HK$110,000,000 will transfer such aggregate appraisal value of property to the borrower. Other unsecured loans of HK$15,000,000 (2005: HK$45,000,000) was interest bearing at 10% per annum. The remaining other borrowings of HK$30,000,000 (2005: Nil) was interest bearing at 4% over the prime lending rate quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited.

Gearing Ratio

The gearing ratio (total debts/ total assets of the Group) was 0.16 as at 31 December 2006 (as at 31 December 2005: 0.20). This ratio was lower than the gearing ratio of last year mainly due to repayment of bank borrowings with CNC advance payment.

Exchange Risks

The majority of the Group's operations are located in the PRC, and the main operational currencies are Hong Kong Dollars and Renminbi. The Company is paying regular and active attention to Renminbi exchange rate fluctuation and consistently assess exchange risks.

Pledge Assets

As at 31 December 2006, the Group pledged the property under development for sale with an aggregate net book value of approximately HK$1,720 million (2005: approximately HK$1,565 million) to secure bank loans granted and amounts payable in respect of respective land development cost totalling approximately HK$118 million (2005: HK$191 million).

Contingent Liabilities

(a) As at 31 December 2006, the financial guarantee given to bank in respect of the loans of the amounts USD2,500,000 which equivalent to approximately HK$19,433,000 (2005: USD2,500,000 which equivalent to approximately HK$19,383,000) granted to Beijing New Rank Real Estate Development Co., Limited, a former subsidiary of the Group.

(b) Pursuant to the agreement entered into between BJCSB and CNC dated 23 December 2003, the construction of the property under development for sale would be completed on 30 June 2005 and its ownership would be delivered to CNC before 30 December 2005. Relevant penalties apply upon the late delivery of ownership as follows:

i. 0.03% interest per day based on money received by the BJCSB upon late delivery within 90 days from 30 December 2005;

ii. if late delivery is more than 90 days from 30 December 2005, CNC will have a right to either terminate the agreement and BJCSB will be required to return all installments without interest and pay damages at the rate of 10% of the money received within 30 days upon receiving notice from CNC; or require BJCSB to pay damages at 0.03% interest per day on the installments received for the period from 30 December 2005 to the date of delivery.

Prospects

The continued growth of the economy of China has contributed a great opportunity for investment. In order to strengthen the financial position of the Group, the management is expected to diversify the businesses and expanse its revenue base in future. The management is confident that the Group will continue to expand its business operation in the PRC and maximizing returns to shareholders.

Employees

As at 31 December 2006, the Group has employed about 59 employees in both the PRC and Hong Kong. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed annually with reference to the then prevailing market employment practices and legislation.

C-3. FINANCIAL YEAR ENDED 31 DECEMBER 2005

OVERALL PERFORMANCE

During the year under review, with the progressive payments from CNC under the agreement dated 23 December 2003 and the effective management of the Board, the Group succeeds to control of the funds as well as maintain the smooth progress of the construction of China Securities Plaza.

Furthermore, the management was successfully in entering the agreements with our banker and creditors to extend the existing loans and strengthen the financial position. Efforts are spent to identify new investment projects with a view to expand its income streams.

ARRANGEMENTS FOR THE RESUMPTION OF TRADING OF SHARES

Trading in shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended since 30 December 2003, pending the release of an announcement by the Company regarding a major transaction relating to China Securities Plaza. The Stock Exchange also questioned whether the Company had a sufficient level of assets and operations. The Board is now working closely with the Stock Exchange by submitting all the required information, with an aim of complying with Rule 13.24 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and enabling the continued listing of its shares on the Stock Exchange. As at the date of this report, the Stock Exchange still considers that the Group has not fully addressed the issues raised. As such, the Group continues to discuss with the Stock Exchange in this respect.

FINANCIAL REVIEW

Results

In 2005, the Group's has no turnover since China Securities Plaza was still under development, neither profit nor turnover was therefore recognised. The Group's net loss for the year was approximately HK$21,026,000 (2004: net profit of HK$136,993,000). The basic loss per share for the year was 7.7 HK cents (2004: earnings per share of 50.4 HK cents).

Administrative expenses of HK$14,966,000 in 2005 represented a decrease of 56% over 2004. The improvement was mainly due to reduction on expenses in subsidiaries disposed in 2004. Finance costs of HK$6,685,000 represented mainly interest expenses on other borrowings, the interest rate changed from 6% to 10%.

Liquidity, Financial Resources and Funding Requirements

The financial position of the Group has been worsening because neither profit nor turnover was recognised during the year. As at 31 December 2005, the net liabilities of the Group increased by 12% to HK$166,417,000 from HK$148,859,000 as at 31 December 2004.

The liquidity of the Group has improved because cash consideration from CNC of HK$712,683,000 has been received during the year. As at 31 December 2005, the cash and bank balances increased by approximately HK$25,890,000 and the current ratio (current assets/ current liabilities) was 0.92 (as at 31 December 2004: 0.89).

As at 31 December 2005, the Group's bank borrowings amounted to approximately RMB170,000,000 equivalent to approximately HK$163,462,000 (2004: approximately RMB300,000,000 equivalent to approximately HK$280,374,000), are secured and repayable within one year.

Other borrowings of HK$210,000,000 (2004: HK$210,000,000) as at 31 December 2005 are repayable within one year. The loan of HK$165,000,000, secured on the shares in the Company held by a director and a former director, (2004: HK$165,000,000) was interest free before 1 July 2005 and extended the repayment date up to 31 December 2005 into two portions : (i) repayment by cash amounting to HK$55,000,000 was interest bearing at 10% per annum; (ii) the balance of which amounting to HK$110,000,000 will transfer such aggregate appraisal value of property to the borrower. Other unsecured loan of HK$45,000,000 (2004: HK$45,000,000) was interest bearing increased from 6% per annum to 10% per annum since 1 July 2005.

Gearing Ratio

The gearing ratio (total debts/ total assets of the Group) was 0.20 as at 31 December 2005 (as at 31 December 2004: 0.40). This ratio was lower than the gearing ratio of last year mainly due to strong cashflow generated from CNC advance payment.

Exchange Risks

The majority of the Group's operations are located in the PRC and the main operational currencies are Hong Kong Dollars and Renminbi. However, the board believes that foreign exchange risks are minimal as Renminbi is relatively stable against Hong Kong Dollars. Therefore, it is not necessary for the Group to make any foreign currency hedging arrangement to minimize the foreign exchange risk and exposure.

Pledge Assets

As at 31 December 2005, the Group pledged the property under development for sale with an aggregate net book value of approximately HK$1,565,000,000 (2004: HK$948,000,000) to secure bank loans granted and amounts payable in respect of respective land development cost totalling approximately HK$191,000,000 (2004: HK$307,000,000).

Contingent Liabilities

In October 2002, one of the creditors of the Group filed a notice of arbitration against the Group's PRC subsidiary holding the property for development for sale for a total amount of approximately RMB290,000,000, which relates to certain land development cost for the property of approximately RMB222,000,000 and interest penalty of approximately RMB68,000,000. A court order against the Group's PRC subsidiary was issued on 22 October 2002 either to freeze its bank deposits or to attach its assets for an amount up to RMB50,000,000. The Group has entered into a settlement agreement (the "Agreement") and rescheduled the outstanding amounts payable to the creditor. The rescheduled payment has been executed in accordance with the terms of the Agreement and therefore the directors are confident that the Group is not liable to pay the aforesaid interest penalty of approximately RMB68,000,000 according to the Agreement.

The Group has given guarantees to banks in respect of the loans of the amounts USD2,500,000 and RMB14,000,000 granted to Beijing New Rank Real Estate Development Co., Limited, a former subsidiary of the Group.

On 23 December 2003, the Group had entered into an agreement with a CNC for the construction of China Securities Plaza. Pursuant to the agreement, the construction should be completed on 30 June 2005 and its ownership should be delivered to CNC before 30 December 2005. Relevant penalties will be required upon the late delivery of ownership as follows:

i. 0.03% interest per day based on money received by the Group upon the late delivery within 90 days from 30 December 2005;

ii. if the late delivery will be more than 90 days from 30 December 2005, CNC will have a right to either terminate the agreement and PRC subsidiary will be required to return all moneys received without interest and pay damages at the rate of 10% of the money received within 30 days upon receiving notice from CNC; or require PRC subsidiary to pay damages at 0.03% interest per day of the moneys received for the period from 30 December 2005 to the date of delivery.

Prospects

The continued growth of the economy of China has contributed a great opportunity for investment. In order to strengthen the financial position of the Group, the management is expected to diversify the businesses and expanse its revenue base in future. The management is confident that the Group will continue to expand its business operation in the PRC and maximizing returns to shareholders.

Employees

As at 31 December 2005, the Group has employed about 60 employees in both PRC and Hong Kong. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed annually with reference to the then prevailing market employment practices and legislation.

C-4. FINANCIAL YEARS ENDED 31 DECEMBER 2004

BUSINESS REVIEW

During the year under review, the successful disposal of all interests in New Rank (BVI 1) Limited has substantially reduced the net liabilities of the Group. With the financial support from Netcom under the agreement dated 23 December 2003 and the effective management of the Board, the Group managed to expand its business steadily and maintain the smooth progress of the construction of China Securities Plaza.

FINANCIAL REVIEW

Result

In the year of 2004, the Group's turnover mainly from rental income derived from the disposed PRC subsidiary amounted to approximately HK$2,651,000 (2003: HK$2,609,000). The Group's net profit for the year was approximately HK$136,993,000 (2003: net loss of HK$65,494,000) including a gain of approximately HK$171,978,000 on disposal of subsidiaries. The basic earnings per share for the year was 50.4 HK cents (2003: loss per share of 24.1 HK cents).

Administrative expenses and finance costs for the year 2004 were HK$34,171,000 and HK$7,491,000 respectively while the year 2003 were HK$42,788,000 and HK$27,241,000, representing a decrease of HK$8,617,000 and HK$19,750,000, the improvement was mainly due to full scale resumption of development work for the China Securities Plaza project, direct costs including borrowing costs attributable to the project were being capitalised. In addition, disposal of subsidiaries also reduced the administrative expenses and finance costs of the Group.

Liquidity, Financial Resources and Funding Requirements

The financial position of the Group has been improved during the year. As at 31 December 2004, the net liabilities of the Group decreased by 47% to HK$148,859,000 from HK$281,845,000 as at 31 December 2003.

Although the current ratio (current assets/current liabilities) as at 31 December 2004 was 0.89 (2003: 1.00), the Group had bank balances and cash of HK$100,014,000 (2003: HK$69,181,000).

As at 31 December 2004, the Group's bank borrowings amounted to approximately RMB300,000,000 equivalent to approximately HK$280,374,000 (2003: approximately RMB398,000,000 equivalent to approximately HK$371,995,000), that is secured and interest-bearing, of which approximately RMB300,000,000 equivalent to approximately HK$280,374,000 (2003: approximately RMB98,034,000 equivalent to HK$91,621,000) are repayable within one year.

Other borrowings of HK$210,000,000 (2003: HK$187,000,000) as at 31 December 2004 are repayable within one year, of which HK$165,000,000 (2003: HK$142,000,000) was secured and interest free. Other unsecured loans of HK$45,000,000 (2003: HK$45,000,000) was interest bearing at 6% per annum.

Gearing Ratio

The gearing ratio (total borrowings/total assets of the Group) was 0.42 as at 31 December 2004 (2003: 0.49). This ratio was lower than the gearing ratio of last year mainly due to strong cashflow generated from the advance payment of Netcom.

Exchange Risks

The Group's major operations are located in the PRC and the main operational currencies are Hong Kong Dollars and Renminbi, there is no significant exchange rate fluctuation during the year under review. Therefore, it is not necessary for the Group to make any foreign currency hedging arrangement to minimise the foreign exchange risk and exposure.

Pledge of Assets

At 31 December 2004, the Group had pledged its property under development with an aggregate net book value of approximately HK$947,789,000 (2003: HK$744,400,000) to secure the bank loans granted and amounts payable in respect of land development cost totalling approximately HK$306,944,000 (2003: HK$522,718,000).

Contingent Liabilities

(a) In October 2002, one of the creditors of the Group filed a notice of arbitration against the PRC subsidiary holding the property for development for sale for a total amount of approximately RMB290 million, which relates to certain land development cost for the property of approximately RMB222 million and interest penalty of approximately RMB68 million. A court order against the PRC subsidiary was issued on 22 October 2002 either to freeze its bank deposits or to attach its assets for an amount up to RMB50 million. The Group was then at the final stage of finalising the terms of the settlement and rescheduling of the outstanding amounts payable to the creditor, which terms would form part of the master standstill agreement as mentioned under note 18 to the financial statements. The directors were confident that the creditor would sign the agreement. Under the agreement, the Group is not liable to pay the aforesaid interest penalty of approximately RMB68 million. Accordingly, the aforesaid sum was not provided in 2002.

During the year ended 31 December 2003, the Group entered into the master standstill agreement with its creditor and bankers under which the aforesaid interest penalty was waived. The waiver is subject to the condition that the Group is able to repay the land development cost in accordance with agreed repayment schedule. Should the Group be unable to comply with repayment schedule, the interest penalty will be become payable. The directors consider that the Group has sufficient funds to comply with the repayment and accordingly no provision for the penalty is necessary.

(b) During the year ended 31 December 2002, a purchaser of an unit of the Group's property under development for sale in the PRC took legal action to cancel the sale and purchase agreement of the aforesaid unit and to claim the refund of the deposits of RMB30 million paid together with interest and applied to freeze the bank balances or equivalent assets of the Group to the extent of RMB30 million. On 8 January 2003, the PRC court ordered that the Group is liable to refund the deposits together with interest to the purchaser. On 31 March 2003, the Group appealed to the court to object the decision based on the fact that the evidence provided by the purchaser are not valid. The directors of the Group, based on the opinion of the independent legal advisers, considered that the claim from the purchaser will be overruled and no provision for the loss is necessary.

(c) During the year ended 31 December 2003, a purchaser of an unit of the Group's property under development for sale in the PRC took legal action to cancel the sale and purchase agreement of the aforesaid unit and to claim the refund of the deposits of approximately RMB15 million paid together with interest. The directors of the Group, based on the opinion of the legal advisers, considered that the claim made by the purchaser is not valid and are of the opinion that the claim will not cause any material loss to the Group. No provision for the loss in the financial statements is necessary.

(d) The Group have given guarantees to banks in respect of the loans of the amounts USD2,500,000 and RMB14,000,000 granted to Beijing New Rank Real Estate Development Co., Limited, a former subsidiary of the Group.

Staff

As at 31 December 2004, the Group had employed about 50 employees in both PRC and Hong Kong. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed annually with reference to the then prevailing market employment practices and legislation.

Prospects

The economy of China has continued to show notable growth. Significant increase in inflow of foreign capital contributes positively to the overall performance of the property market. The Group actively seeks for investment project with good return in order to enhance the overall income of the Group.

In respect of property leasing, strong demand for office building in Beijing especially the Grade A office in the city center of Beijing will be beneficial to property leasing. After the completion of the disposal of the China Securities Plaza, a property as part of consideration located at the city center of Beijing which is classified as Grade A office premises, will be transferred to the PRC subsidiary. The main usage of the property will be used for generating rental income. The management expects that the office property will contribute significant recurrent rental income to the Group.

D. INDEBTEDNESS AND CONTINGENT LIABILITIES

The information in this section is updated as at the close of business on 28 December 2007 being the latest practicable date for the purpose of preparing the indebtedness statement of the Group.

As of 28 December 2007, the amount of the China Construction Bank's borrowings is approximately RMB90,000,000 (equivalent to approximately HK$93,750,000) while, as of 31 December 2006, the amount of bank borrowings is approximately RMB90,000,000 (equivalent to approximately HK$93,750,000). The bank borrowings are secured on the land use right of China Securities Plaza under development and are interest-bearing and repayable within one year. RMB60,000,000 (equivalent to approximately HK$62,500,000) is guaranteed by Beijing New Rank Real Estate Development Co., Limited, a former subsidiary of the Group and the remaining RMB30,000,000 (equivalent to approximately HK$31,250,000) is unguaranteed. Such bank borrowings have been mainly used for the development of China Securities Plaza. Bank borrowings of RMB90,000,000 (equivalent to approximately HK$93,750,000) was due for payment on 9 October 2006. Zhong Zheng, the China Construction Bank and the Other Party have agreed under the an agreement dated 20 September 2005 that the balance of RMB30,000,000 (equivalent to approximately HK$31,250,000) will be settled by the eighth instalment of advance payment from the Other Party and the remaining balance of RMB60,000,000 (equivalent to approximately HK$62,500,000) to be repaid by Zhong Zheng will be further discussed with the China Construction Bank once the transfer of the Consideration Property from the Other Party is completed. The time for due payment of such remaining balance is still under negotiation between Zhong Zheng and the China Construction Bank and has still not confirmed. The Group intends to finance the repayment of such remaining balance with proceeds on disposal of the Consideration Property.

The amount of other borrowings of the Group is HK$181,000,000 as of 28 December 2007 (while as of 31 December 2006 they are HK$210,000,000).

The amount of HK$180,000,000 is inclusive of a 10% per annum unsecured interest bearing loan of HK$15,000,000 granted by CMIC and/or its nominee to the Company, a 10% per annum interest bearing loan of HK$55,000,000 granted by Starry Joy to Tong Sun and an interest free shareholder's loans advanced by Starry Joy to Tong Sun in the sum of HK$110,000,000. The 10% per annum interest bearing loan and the interest free shareholder's loan was secured on the shares in the Company held by Mr. Han Junran (Chairman and executive Director) and Mr. Leung Kwo (former Director). Such other borrowings are unguaranteed.

The amount of HK$1,000,000 is inclusive of a HSBC Bank Prime rate +2% per annum is an unsecured interest bearing loan granted by Better consultants Limited.

With reference to the circular dated 26 June 2006, it was disclosed that under the second supplemental agreement dated 25 October 2005 between Tong Sun, New Rank 2, Starry Joy and CMIC, the parties agreed that in relation to an interest free shareholder's loans advanced by Starry Joy to Tong Sun in the sum of HK$165,000,000 in aggregate, Tong Sun shall (i) repay a sum of HK$55,000,000 on a date to be determined by Tong Sun but in any event no later than 31 December 2005 together with interest calculated at the rate of 10% per annum on the said sum of HK$55,000,000 for the period from 1 July 2005 up to but excluding the date of repayment of the said sum of HK$55,000,000 (the interest rate was determined based on arms-length commercial negotiations between the parties with reference to the increasing prime rate as quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited and the costs of fund) and (ii) as to the balance of HK$110,000,000, transfer to Starry Joy such portion of the Consideration Property to be agreed by the parties which has/have an aggregate appraisal value (as determined by a professional valuer, who is an Independent Third Party, to be engaged by Tong Sun to value the Consideration Property upon completion of the transfer to Zhong Zheng from the Other Party pursuant to the Agreement and such aggregate appraisal value shall be confirmed by Starry Joy and Tong Sun) equivalent to the full amount of the said balance as soon as practicable after completion of transfer of the Consideration Property to Zhong Zheng. The 10% per annum unsecured interest bearing loan of HK$45,000,000 was due on 31 December 2005. Tong Sun has respectively offered to Starry Joy and CMIC to further extend the date of repayment of the said sum of HK$55,000,000 and HK$45,000,000 and the details of such extension are still under negotiation.

Zhong Zheng has been negotiating with several potential buyers of the Consideration Property but no agreement has been reached. Based on the valuation report, the market value of the Consideration Property was RMB750 million (equivalent to approximately HK$781.25 million). The Directors are of the view that, if the Consideration Property is disposed of, the Group will have sufficient fund to repay the said other borrowings and the said remaining balance of the China Construction Bank's borrowing of RMB60,000,000 (equivalent to approximately HK$62,500,000).

On 1 March 2005, the Company issued a convertible bond bearing interest at 3% per annum with a principal amount of HK$12,000,000 ("2005 Convertible Bond"), which is convertible into the Company's ordinary shares at a conversion price of HK$0.30 per share. The convertible bond matures two years from the issue date. On 1 March 2007, such convertible bond was extended in the amount of approximately HK$7,500,000, which is convertible into the Company's ordinary shares at a conversion price of HK$0.138 per share and bearing interest of the prime lending rate from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollar deposits (the "Prime Rate"). On 17 August 2007, the Company receive an intention letter from Tritime Holdings Limited for agreeing to extend the maturity date of convertible bond to 28 February 2009.

As at 31 December 2006, an amount of HK$30,000,000 were unsecured, bearing interest of the Prime Rate plus 4% per annum and represented the consideration of the convertible bond received in advance. Such balance has been transferred to convertible bond together with the arrangement fee and interest accrued on 14 June 2007 at the amount of HK$33,403,150. The convertible bond is convertible into the Company's ordinary shares at a conversion price of HK$0.138 per share. On 21 August 2007, the Company receive an intention letter from Crown Champion Investments Limited ("Crown Champion") for agreeing to extend the maturity date of convertible bond to 28 February 2009.

On 28 June 2007, issuance of another convertible bond at the amount of HK$23,055,000 was completed. The convertible bond is convertible into the Company's ordinary shares at a conversion price of HK$0.138 per share. It will bear interest of the Prime Rate plus 4% per annum. On 21 August 2007, the Company receive an intention letter from Crown Champion for agreeing to extend the maturity date of convertible bond to 28 February 2009. At the balance sheet date, consideration at the amount of HK$21,750,000 is still unpaid by the subscriber and is included under other receivables.

All the convertible bonds will be matured in August 2007. Therefore, the equity component of the convertible bond was immaterial and the whole amount was treated as liabilities.

Pursuant to the New City Guarantee, the Company amongst other parties (namely Zhong Zheng, Mr. Han Junran and Mr. Leung Kwo) agreed to jointly and on a fully indemnified basis, inter alia, (i) procure and guarantee the fulfillment by Zhong Zheng of all its obligations under the Agreement; (ii) indemnify Poly Corporation of all its liabilities under the Poly Corporation Guarantee together with all additional consequential losses; (iii) pledge (a) the Company's 51% interest in Tong Sun by the Company, and the shareholders' loan granted to Tong Sun by the Company (which has none), and (b) 20% and 5% of the shareholding in the Company held by Mr. Leung Kwo and Mr. Han Junran, respectively, in favour of Poly Corporation.

Pursuant to the New City Counter Indemnity and Zhong Zheng Counter Indemnity, each of the Company and Zhong Zheng undertakes to provide executed counter indemnities in favour of Poly Corporation to indemnify Poly Corporation of its obligations under the Poly Corporation Guarantee given in favour of the Other Party.

The Group has given guarantees to banks in respect of the loans of the amounts USD2,500,000 and RMB14,000,000 (equivalent to approximately HK$14,583,000) granted to Beijing New Rank Real Estate Development Co., Limited, a former subsidiary of the Group.

On 19 January 2006, the Beijing Arbitration Committee made an arbitration award in favor of Beijing Tai Yang Hong that the agreement dated 6 June 2003 for the purchase of the entire 12th Floor of the China Securities Plaza entered into between Beijing Tai Yang Hong and BJCSB, the 51% indirect owned subsidiary of the Group be cancelled and that the sum of approximately RMB14,000,000 (equivalent to approximately HK$14,583,000) being refund of the purchase price paid and RMB800,000 (equivalent to approximately HK$833,000) being damages be paid by BJCSB to Beijing Tai Yang Hong. BJCSB has applied to the People's Court in Beijing for stay of enforcement of such award.

The Directors confirmed that there is no material change in indebtedness and contingent liabilities since 28 December 2007 and up to the Latest Practicable Date.

E. FINANCIAL AND TRADING PROSPECTS

In conjunction with closing the deal between the Company and China Network Communications Group Corporation (please refer to our circular dated 27 November 2006), the management has put a lot of attention in looking for new sources of long term financing for improving the liquidity of the Company. This move was made possible when the Consideration Property being introduced to the property market for rental purpose. There were quite a few offers and the Company is currently negotiating for the best deal for the Company.

Furthermore, the management is also focusing their efforts in securing other development projects for the Company. As development opportunities in the city of Beijing is getting more intense and the availability of prime sites is also reducing, the management has pursue in locating prime sites with higher growth potentials not restricting to Beijing alone. The Vendor is one of the predominant developer in Qin Huang Dao and having development sites of varying sizes, a long term business relationship with the Vendor will be beneficial to the trading prospect of the Company.

With a purpose of having the shares of the Company be traded again under the Stock Exchange, the management has focused on improving the financial strengths of the Company and sourcing suitable joint venture property development partners. Our shareholders will be hearing from us again in the near future.

F. WORKING CAPITAL

The Company is negotiation with several PRC banks in securing a long term banking facility. Should any one of these arrangements is concluded, the management is of the opinion that the current overdue advances could all be repaid. Furthermore, the Company is currently having business negotiation with several potential tenants of the Consideration Property (please refer to our circular dated 27 November 2006) whereby the whole Consideration Property will be let to a sole tenant. Since the business terms we are offering is in line with current commercial terms, these business negotiation is expected to be completed in the near future and by then, the working capital of the Company will be very much improved from its present state. Should these negotiation failed, the Board is of the opinion that it should not be difficult for the Company to secure other business entities who are willing to enter into similar arrangements with the Company in view of the high demand of office space in prime zones of Beijing.

Concerning the current acquisition, the Board considers that since several arrangements could be made to settle the Consideration Debt and with the Buy Back Option granted to the Vendor, there would be a net gain of incoming cash flow to the Company and again, an improvement to the working capital.

The Directors are of the opinion that, having regard to the financial resources available to the Enlarged Group, including internally generated funds and other banking facilities available, the Enlarged Group will have sufficient working capital for its present requirements for the next twelve months from the date of this circular.

G. OTHERS

In relation to the Buy Back Option which constitutes a very substantial disposal, Rule 14.68(2)(a) and Rule 4.06A of the Listing Rules are not applicable as it does not involved a disposal of a business, company or companies, and no accountants' report is required in this respect.

ACCOUNTANTS'S REPORT ON QIN HUANG DAO OCEAN WEST HILL REAL PROPERTY DEVELOPMENT COMPANY LIMITED

Parker Randall CF (H.K.) CPA Limited
Rm. 201, 2/F., Two Grand Tower,
625 Nathan Road, Kowloon,
Hong Kong

The Directors
New City (China) Development Limited

Dear Sirs,

Introduction

We set out below our report on the financial information of QIN HUANG DAO OCEAN WEST HILL REAL PROPERTY DEVELOPMENT COMPANY LIMITED「秦皇島海洋西嶺房地產開發有限公司」(the "Target") for the period from 9 June 2005 (date of incorporation) to 31 December 2007 (the "Relevant Periods") (the "Financial Information") for inclusion in the circular of New City (China) Development Limited (the "Company") dated 29 February 2008 (the "Circular") in connection with the proposed acquisition of approximately 51% of the entire issued share capital of the Target, details of which is set out in the Circular.

The Target was incorporated in People Republic of China with limited liability on 9 June 2005 with a registered capital of RMB5,000,000. The Company is dormant during the Relevant Periods.

Basis of opinion

The Target have adopted 31 December as their financial year end date. The Target was dormant since its date of incorporation and no statutory audit was performed.

For the purpose of this report, the directors of the Target have prepared the Financial Information of the Target for the Relevant Periods in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which include the results, cash flows and assets and liabilities of the Target. We have carried out independent audit procedures on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have also examined the Financial Information of the Target for the Relevant Periods and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

We have not audited any financial statements of the Target in respect of any period subsequent to 31 December 2007.

Respective responsibilities of directors and reporting accountants

The directors of the Target are responsible for the preparation of the Financial Information of the Target which gives a true and fair view. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on examination, on the Financial Information and to report our opinion to you.

Opinion

In our opinion, the Financial Information, for the purpose of this report and prepared in accordance with the HKFRSs, gives a true and fair view of the state of affairs of the Target as at 31 December 2005, 2006 and 2007 and of the results and cash flows of the Target for the Relevant Periods.

Income Statement

		Years ended		Period from 9/6/2005 to
		31/12/2007	**31/12/2006**	**31/12/2005**
	Note	*RMB*	*RMB*	*RMB*
REVENUE	*3*	—	—	—
Other revenue		1	1	1
Administrative expenses		(4,351)	(1,941)	(8,599)
LOSS BEFORE TAX	*4*	(4,350)	(1,940)	(8,598)
Tax	*5*	—	—	—
LOSS AFTER TAX		(4,350)	(1,940)	(8,598)

The annexed notes form an integral part of these financial statements.

Balance Sheet

		As at 31 December		
		2007	**2006**	**2005**
	Note	*RMB*	*RMB*	*RMB*
CURRENT ASSETS				
Amounts due from fellow subsidiaries	*6*	25,650	4,922,400	4,918,800
Amount due from a shareholder	*7*	4,958,100	—	—
Cash and bank balances		1,362	100,962	100,102
		4,985,112	5,023,362	5,018,902
CURRENT LIABILITIES				
Amount due to a shareholder	*7*	—	33,900	27,500
		—	33,900	27,500
NET CURRENT ASSETS		4,985,112	4,989,462	4,991,402
NET ASSETS		4,985,112	4,989,462	4,991,402
CAPITAL AND RESERVES				
Share capital	*8*	5,000,000	5,000,000	5,000,000
Accumulated losses		(14,888)	(10,538)	(8,598)
		4,985,112	4,989,462	4,991,402

The annexed notes form an integral part of these financial statements.

Statement of Changes in Equity

	Share capital	**Accumulated losses**	**Total**
	RMB	*RMB*	*RMB*
At 9 June 2005	5,000,000	—	5,000,000
Loss for the period	—	(8,598)	(8,598)
At 31 December 2005	5,000,000	(8,598)	4,991,402
At 1 January 2006	5,000,000	(8,598)	4,991,402
Loss for the year	—	(1,940)	(1,940)
At 31 December 2006	5,000,000	(10,538)	4,989,462
At 1 January 2007	5,000,000	(10,538)	4,989,462
Loss for the year	—	(4,350)	(4,350)
At 31 December 2007	5,000,000	(14,888)	4,985,112

The annexed notes form an integral part of these financial statements.

Cash Flow Statement

	Years ended 31/12/2007 *RMB*	Years ended 31/12/2006 *RMB*	Period from 9/6/2005 to 31/12/2005 *RMB*
CASH FLOW FROM OPERATING ACTIVITIES			
Operating loss before working capital changes	(4,350)	(1,940)	(8,598)
Decrease/(increase) in amount due from fellow subsidiaries	4,896,750	(3,600)	(4,918,800)
Increase in amount due from a shareholder	(4,958,100)	—	—
(Decrease)/increase in amount due to a shareholder	(33,900)	6,400	27,500
Net cash provided by/(used in) operating activities	(99,600)	860	(4,899,898)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in registered capital	—	—	5,000,000
Net cash provided by financing activities	—	—	5,000,000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(99,600)	860	100,102
Cash and cash equivalents at the beginning of year	100,962	100,102	—
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	1,362	100,962	100,102
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	1,362	100,962	100,102

The annexed notes form an integral part of these financial statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

The Company was incorporated in People's Republic of China with limited liability. The address of its principal place of business is 河北省秦皇島市海港區文體路20號. The Company is dormant during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRS), which collective term includes all applicable Hong Kong Accounting Standards and Interpretations, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting year of the Company. The adoption of new and revised HKFRSs had no material effect on the accounting policies of the Company.

b. Basis of preparation

The financial statements has been prepared in conformity with the principles applicable to a going concern.

The measurement basis used in the preparation of the financial statements is historical cost.

The report is prepared using the accounting policies materially consistent with those of New City (China) Development Limited as required in Listing Rule 14.67(4)(a)(i).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c. Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

d. Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the income statement except to the extent that they related to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on all temporary difference arising between the tax bases of assets and liabilities and their carrying value in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary difference while deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that is probable that sufficient taxable profit will be available to allow all or parts of the deferred tax asset to be utilised.

e. Foreign currencies

Foreign currency transactions are converted at the exchange rate applicable at the transaction date. Foreign currency monetary items are translated into Renminbi using exchange rates applicable at the balance sheet date. Gains and losses on foreign exchange are recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f. Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably on interest income which is recognised on a time proportion basis taking into account the principal amounts outstanding and the effective interest rate applicable.

g. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

h. Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

i. Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

3. REVENUE

An analysis of the Company's revenue is as follows:

	Years ended		Period from 9/6/2005 to
	31/12/2007	**31/12/2006**	**31/12/2005**
	RMB	*RMB*	*RMB*
Turnover	—	—	—

4. LOSS BEFORE TAX

	Years ended		Period from 9/6/2005 to
	31/12/2007	**31/12/2006**	**31/12/2005**
	RMB	*RMB*	*RMB*
Loss before tax has been arrived at after charging:			
Auditors' remuneration	—	—	—

5. TAX

(a) The amount of income tax expense in the income statement represents:

	Years ended		Period from 9/6/2005 to
	31/12/2007	**31/12/2006**	**31/12/2005**
	RMB	*RMB*	*RMB*
Overseas tax			
— current	—	—	—

No provision for Hong Kong profits tax is required since the Company does not carry on business in Hong Kong and is not subject to Hong Kong profits tax.

PRC tax is calculated at 33% on profit before tax during the year according to existing legislation in the country concerned. No PRC tax expense for the Company since loss is result for the year ended.

(b) No provision for deferred taxation has been made in the financial statements as there are no temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

6. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

Amounts due from fellow subsidiaries are as follows:

Name of fellow subsidiary	Maximum amount outstanding during the period	As at 31 December 2007	2006	2005
	RMB	*RMB*	*RMB*	*RMB*
China Yin Di City Investment Company Limited	4,900,000	—	4,900,000	4,900,000
秦皇島海洋道西房地產開發有限公司	13,500	13,500	11,500	8,700
秦皇島海洋山東鋪房地產開發有限公司	12,150	12,150	10,900	10,100
		25,650	4,922,400	4,918,800

The amounts due from fellow subsidiaries are interest free, unsecured and repayable on demand.

7. AMOUNT DUE FROM/(TO) A SHAREHOLDER

Amount due from/(to) a shareholder is as follows:

Name of shareholder	Maximum amount outstanding during the period	As at 31 December 2007	2006	2005
	RMB	*RMB*	*RMB*	*RMB*
Qin Huang Dao City Ocean Realty Company Limited	4,966,100	4,958,100	(33,900)	(27,500)

The amount due from/(to) a shareholder is interest free, unsecured and repayable on demand.

8. SHARE CAPITAL

	As at 31 December 2007	2006	2005
	RMB	*RMB*	*RMB*
Authorised and registered capital	5,000,000	5,000,000	5,000,000

Subsequent Financial Statements

No audited financial statements have been prepared by Target in respect of any period subsequent to 31 December 2007.

Yours faithfully,

Parker Randall CF (H.K.) CPA Limited
Certified Public Accountants

Lau Po Ming, Peter
Practising Certificate No.: P2732

29 February 2008

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular, received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 31 December 2007 of the Property.

Asset Appraisal Limited
資產評值顧問有限公司

Rm 1303 13/F Beverly House
No. 93-107 Lockhart Road Wanchai HK
香港灣仔駱克道93-107號
利臨大廈13樓1303室
Tel: (852) 2529 9448
Fax: (852) 3521 9591

28 February 2008

The Directors
New City (China) Development Limited
Units 2804-06, 28/F
Cosco Tower, Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

Dear Sirs,

Re: Development Site of Wanhai No.3 at the Southern Side of Hebei Avenue and Eastern Side of Aoti Dong Road, Haigang District, Qin Huang Dao City, Hebei Province, the People's Republic of China (the "PRC")

In accordance with the instructions from **New City (China) Development Limited** (referred to as the "Company") to value the captioned property (referred to as the "Property"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing the market value of the Property as at **31 December 2007** (referred to as the "date of valuation").

This letter which forms parts of our valuation report explains the basis and methodology of valuation, summarizing the legal opinion prepared by the legal advisor of the Company, clarifying assumption and limiting conditions of this valuation.

Basis of Valuation

Our valuation of the Property represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Valuation Methodology

The Property has been valued by the comparison method where comparison based on prices realised or market prices of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

Assumptions

Our valuation has been made on the assumption that the owner sells the Property on the market in its existing state without the benefit of any deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to increase the value of the Property.

We have assumed that the Property can be freely transferred either in whole or in strata-title on the market free from any additional land premium and prior government approval. We have also assumed that the land premium in associate with the land grant of the Property has been settled in full as at the date of valuation.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

Titleship

We have been provided with copies of legal documents regarding the Property. However, we have not verified ownership of the properties and the existence of any encumbrances that would affect ownership of them.

We have also relied upon the legal opinion provided by the PRC legal advisers, namely Qin Huang Dao City Gang Cheng Law Firm (秦皇島市港城律師事務所, the "PRC Legal Opinion"), to the Company on the relevant laws and regulations in the PRC, on the nature of land use rights in the property situated in the PRC.

Limiting Conditions

No allowance has been made in our report for any charges, mortgages or amounts owing on the Property nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the Property is free from encumbrances, outstanding land premium, restrictions and outgoings of an onerous nature, which could affect its value. Our valuation have been made on the assumption that the seller sells the property on the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the Property.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as floor area, tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site area and floor area in respect of the Property but have assumed that the areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have carried out inspection of the Property. However, no structural survey has been made. We are therefore, unable to report that the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the Property, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

Our valuation certificate is attached herewith.

Yours faithfully,
for and on behalf of
Asset Appraisal Limited

Sandra Lau
MFin MHKIS AAPI RPS(GP)
Director

Sandra Lau is a member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice. She is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

VALUATION CERTIFICATE

Property	**Description**	**Particulars of occupancy**	**Market Value in existing state as at 31 December 2007** *RMB*
Development Site of Wanhai No.3 at the Southern Side of Hebei Avenue and Eastern Side of Aoti Dong Road, Haigang District, Qin Huang Dao City, Hebei Province, the PRC	The property comprises a redevelopment site with an area of 20,039.25 square metres. It is currently occupied by single to 6-storey dilapidated buildings and structures which are planned to be pull down. Upon completion of the site clearance work, the cleared site shall be developed into a residential/ commercial project. According to the preliminary development scheme provided by the Company, the project, upon full completion, shall provide a total gross floor area of 102,200 square metres (sq.m.) which is broken down into the followings: **Use** — **Gross Floor Area** Residential — 72,200.-sq.m. Commercial — 30,000.-sq.m. Total: — 102,200.-sq.m.	As at the date of our inspection, the property was occupied by existing occupiers who shall be relocated upon completion of site clearance work.	RMB230,000,000

Notes:

1. Pursuant to the Land Use Rights Contract entered into between Qin Huang Dao State-owned Land Resources Bureau（秦皇島市國土資源局) (the “Bureau”) and 秦皇島市海洋置業有限公司 (Qin Huang Dao City Ocean Realty Company Limited, referred to as “Qin Huang Dao Ocean”) on 29 August 2004, the land use rights in the property were granted from the Bureau to Qin Huang Dao Ocean for commercial and residential uses. Subsequently, a Construction Land Use Planning Permit was issued in the name of Qin Huang Dao Ocean on 9 March 2007.

2. As stipulated in the aforesaid Land Use Rights Contract, the land use rights term of the property is 40 years (for commercial use) and 70 years (for residential use) commencing from the date of the Land Use Rights Certificate to be issued for the property.

3. Pursuant to a Share Transfer Agreement of Qin Huang Dao Ocean West Hill Real Property Development Company Limited (秦皇島海洋西嶺房地產開發有限公司) entered into between Qin Huang Dao Ocean and the Company, Qin Huang Dao Ocean is committed to undertake site clearance and complete land use rights transfer procedures in favour of Qin Huang Dao West Hill Real Property Development Company Limited.

4. The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the opinion of the Company’s legal advisers on the PRC law is as follows:

Land Use Rights Certificate	:	to be issued upon completion of site clearance
Land Use Rights Contract	:	Yes
Construction Land Use Planning Permit	:	Yes
Construction Works Planning Permit	:	No
Building Ownership Certificate	:	No

5. In our valuation, we have taken into account the demolition costs to be incurred for removing all the existing buildings and structures erected on the property as at the valuation date. Based on our visual site inspection of the property, it was partially covered with 1 to 2-storey brick work structures. We estimate that the costs for demolishing and clearing out all these buildings and structures would be approximately RMB1,500,000. Such estimated costs have been taken into account in the course of our valuation.

6. The PRC legal opinion of the property is summarized as follows:

   6.1 The property falls within Xi Bai Ta Ling Village (西白塔嶺村) which is among four villages designated as redevelopment areas by the Land Administration Bureau of Qin Huang Dao City;

   6.2 Qin Huang Dao Ocean West Hill Real Property Development Company Limited (秦皇島海洋西嶺房地產開發有限公司股) has been authorized by Land Administration Bureau of Qin Huang Dao City to undertake the redevelopment project for Xi Bai Ta Ling Village.

   6.3 Qin Huang Dao Ocean West Hill Real Property Development Company Limited who takes the lead to redevelop the property shall be entitled to obtain the land use right certificate upon completion of the site clearance work.

7. In our valuation, we have assumed that all the land premium in associate with the land grant of the property has been settled in full as at the date of valuation. In addition, we have also assumed that the Land Use Rights Certificate of the property will be issued in due course.

The Directors
New City (China) Development Limited

Dear Sirs,

Report on the Financial Statements

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of New City (China) Development Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about very substantial acquisitions and connected transactions relating to the proposed acquisition of 2,550,000 shares in Qin Huang Dao Ocean West Hill Real Property Development Company Limited「秦皇島海洋西嶺房地產開發有限公司」(the "Target"), representing approximately 51% of the entire issued share capital of the Target (the "Acquisition"), might have affected the financial information presented, for inclusion from pages 135 to 144 of Appendix IV to the circular of the Company dated 29 February 2008 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 134 of Appendix IV to this Circular.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Reporting accountants' responsibility for the financial statements

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations, we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Enlarged Group as at 30 June 2007 or any future date; or

- the results and cash flows of the Enlarged Group for the six months ended 30 June 2007 or for any future period.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Parker Randall CF (H.K.) CPA Limited
Certified Public Accountants
Lau Po Ming, Peter
Practising Certificate No.: P2732
Rm. 201, 2/F., Two Grand Tower,
625 Nathan Road, Kowloon,
Hong Kong

29 February 2008

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The accompanying Unaudited Pro Forma Financial Information of the Group, comprising the unaudited pro forma consolidated income statement, unaudited pro forma consolidated cash flow statement and unaudited pro forma consolidated balance sheet of the Group, has been prepared by the directors of the Company in accordance with Paragraph 29 of Chapter 4 for the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, to illustrate the effect of the proposed acquisition of 51% total equity interest in Qin Huang Dao Ocean West Hill Real Property Development Company Limited (the "Target") held by the Qin Huang Dao City Ocean Realty Company Limited (the "Vendor").

The accompanying unaudited pro forma consolidated balance sheet of the Group as at 30 June 2007 has been prepared using accounting policies materially consistent with that of the Group and based upon the historical unaudited consolidated balance sheet of the Group as at 30 June 2007 as per the published interim report included in the financial information as set out in Appendix I of this Circular and the audited balance sheet of the Target as at 31 December 2007 as set out in Appendix II of this Circular, after giving effect to the pro forma adjustments described in the accompanying notes, as if the Acquisition have been completed on 30 June 2007.

The accompanying unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement of the Group have been prepared based on the audited consolidated income statement and audited cash flow statement of the Group for the year ended 31 December 2006 as per the published annual report included in the financial information as set out in Appendix I of this Circular and the audited income statement and audited cash flow statement of the Target for the year ended 31 December 2006 as set out in Appendix II of this Circular, after giving effect to the pro forma adjustments description in the accompany notes, as if the Acquisition have been completed on 1 January 2006. The directors of the Company are of opinion that no material seasonal factors are noted, which would have a material impact on the unaudited pro forma consolidated income statement and consolidated cash flow statement of the Group.

The accompanying Unaudited Pro Forma Financial Information of the Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates, uncertainties, the accompanying Unaudited Pro Forma Financial Information of the Group does not purport to present the actual financial position of the Group that would have been attained had the Acquisition been completed on 30 June 2007, or the results of operations or cash flows of the Group that would have been attained had the Acquisition been completed on 1 January 2006. Further, the accompanying Unaudited Pro Forma Financial Information of the Group does not purport to predict the Group's future financial position, results of operations or cash flows.

The accompanying Unaudited Pro Forma Financial Information of the Group should be read in conjunction with the latest published audited consolidated financial information and unaudited interim result of the Group as set out in Appendix I of this Circular, the audited management account of the Target as set out in Appendix II of this Circular and other financial information included elsewhere in this Circular.

1. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE GROUP

	The Group Year ended 31 December 2006	The Target Year ended 31 December 2006 (Note 1)	Pro forma adjustment (Note 2)	Pro forma adjustment (Note 3)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	—	—	—	—	—
Cost of sales	—	—	—	—	—
Gross Profit	—	—	—	—	—
Other revenue	1,497	—	—	—	1,497
Administration expenses	(23,933)	(2)	—	—	(23,935)
Goodwill written off	—	—	—	(8,731)	(8,731)
Loss from operations	(22,436)	(2)	—	(8,731)	(31,169)
Finance costs	(10,473)	—	—	—	(10,473)
Loss before taxation	(32,909)	(2)	—	(8,731)	(41,642)
Taxation	—	—	—	0	—
Loss for the period	(32,909)	(2)	—	(8,731)	(41,642)
Attributable to:					
Equity holders of the Company	32,909	(2)	1	(8,731)	(41,641)
Minority interests	—	—	(1)	—	(1)
	32,909	(2)	0	(8,731)	(41,642)

Note:

(1) For the purposes of this unaudited pro forma consolidated income statement, the audited income statements of the Target for the year ended 31 December 2006 as set out in Appendix II of this circular, which are denominated in RMB, has been translated into HK dollars at the prevailing average exchange rate of HK$1.00 to RMB0.96 during the year 31 December 2006.

(2) Upon completion of the Acquisition, 49% of the equity interest of the Target is held by the minority shareholders. The unaudited pro forma adjustment reflects the recognition of net loss for the year attributable to minority interests as if the Acquisition was completed on 1 January 2006 in the unaudited pro forma consolidated income statement. This pro forma adjustment will not have continuing effect on the income statement.

(3) (i) Under the Memorandum of Cooperation, the consideration of the Sale Equity Interest was agreed RMB10,924,000 (equivalent to approximately HK$11,379,000). The Target has a registered capital of RMB5,000,000 (equivalent to approximately HK$5,208,000) and the net asset value of RMB4,984,000 (equivalently to approximately HK$5,192,000). The 51% of the net asset value of the Target is RMB2,542,000 (equivalently to approximately HK$2,648,000). The Consideration was determined on the basis of applying a premium of about RMB8,382,000 (equivalent to approximately HK$8,731,000) to 51% of the net asset value of the Target. Accordingly, this pro forma adjustment represents the goodwill arose thereof. Pursuant to HKFRS 3, goodwill from business combination should be tested by its impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, in accordance with HKAS 36. However, the directors believed that it is more appropriate to immediately write off the whole amount of goodwill, it is not prohibited under HKFRS, rather than test by its impairment annually. The basis of this treatments is that target is dormant and carry no business since its incorporation. As the goodwill did not contribute any future economic benefits the directors are therefore write off such amount immediately under prudence concept.

(ii) The unaudit pro forma adjustment will not have continuing effect on the income statement.

(4) Under the Agreement, upon payment of the deposit to the Vendor for the consideration of the Sale Equity Interest of the Target, the Vendor shall transfer the Land to the Target. Valuation of the Land had been made by two property valuers. The valuation made by the Vendor's Property Valuer on 6 August 2007 by the methods of net valuation and market comparison is RMB242,650,000 (equivalent to approximately HK$252,760,000) whereas that made by the property valuer appointed by the Company, Asset Appraisal Limited, on 12 November 2007 is RMB230,000,000 (equivalent to approximately HK$239,583,000) by comparison method on the basis that the valuation represents the market value which means the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. The property valuer of the Company had provided the valuation of the Land and the draft Valuation Report to the Company before the entering into of the Memorandum of Cooperation. They only issued the formal Valuation Report on 12 November 2007 which is substantially the same as the draft previously provided. In particular, the valuation of the Land is the same. Based on those valuations and by the Memorandum of Cooperation, the Parties reached an agreed valuation of the Land at RMB238,000,000 (equivalent to approximately HK$247,917,000), and by adopting a 10% agreed discount after commercial negotiation, the Land Consideration is agreed as RMB214,200,000 (equivalent to approximately HK$223,125,000). It is intended that a building complex will be built on the Land, which will consist of a commercial complex at the lower part and residential apartments at the upper part. The Land will be treated as current assets of the Group. It is intended that the commercial complex and the residential apartments will be disposed of after completion of construction.

(5) The Land consideration shall be settled as follows:

(i) Upon the relevant authorities approving the borrowing of foreign loan by the Target, the Company shall issue 54,000,000 shares at a price of HK$0.27 each to the Vendor in partial settlement of the Land Consideration and the Target shall owe an amount of HK$14,580,000 to the Company;

(ii) Under the Memorandum of Cooperation that upon completion of the construction of the commercial part of the Land, the Vendor shall grant a buy back option for about 30,000 square meters commercial part at a price of RMB9,000 (equivalent to approximately HK$9,375) per square meter. The total aggregate consideration payable by the Vendor upon full exercise of the Buy Back Option will be about RMB270,000,000 (equivalent to approximately HK$281,250,000). The Vendor shall have the discretionary power to exercise the Buy Back Option. The consideration payable by the Vendor will be set off by any outstanding Land Consideration. Any consideration payable by the Vendor under the Buy Back Option not utilized for such setting off will be paid by the Vendor to the Target, which will be used as the operating cash for future development of the Target. No adjustment have been made to reflect any trading result or other transactions of the Group in relation to the Buy Back Option.

(iii) The Target shall use any future surplus cash as cash payment for settlement of any outstanding Land Consideration payable by it.

(6) The Buy Back Option shall not be transferable, shall be exercisable within 1 month upon issuance of 房產證 (Certificate of Ownership of Property) of the commercial complex, shall be exercised in full (i.e. for the whole of the commercial complex, but not only part thereof) if being exercised, and the amount payable thereunder by the Vendor shall be paid within 1 month after notice of its exercise. These terms are not provided for in the Memorandum of Cooperation.

2. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE GROUP

	The Group as at 30 June 2007	The Target as at 31 December 2007 (Note 1)	Pro forma adjustment (Note 2)	Pro forma adjustment (Note 3 and 4)	Pro forma adjustment (Note 5)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
NON-CURRENT ASSETS						
Investment properties	750,000	—	—	—	—	750,000
Property, plant and equipment	2,125	—	—	—	—	2,125
Investment in subsidiaries	—	—	11,379	(11,379)	—	—
	752,125	—	11,379	(11,379)	—	752,125
CURRENT ASSETS						
Property under development for sale	—	—	—	—	223,125	223,125
Other receivables	24,034	—	—	—	—	24,034
Accounts receivable	77,571	5,191	—	—	—	82,762
Bank balance and cash	37,944	1	(1,000)	—	—	36,945
TOTAL CURRENT ASSETS	139,549	5,192	(1,000)	—	223,125	366,866
	891,674	5,192	10,379	(11,379)	223,125	1,118,991
CURRENT LIABILITIES						
Trade payables	(98,120)	—	—	—	—	(98,120)
Other payables & accrued expenses	(51,798)	—	—	—	—	(51,798)
Obligations under finance leases and hire purchases contracts	(73)	—	—	—	—	(73)
Bank loan	(90,000)	—	—	—	—	(90,000)
Other borrowings	(76,219)	—	—	—	—	(76,219)
Taxes payable	(113,007)	—	—	—	—	(113,007)
Convertible bonds	—	—	—	—	—	—
Provisions	(15,484)	—	—	—	—	(15,484)
	(444,701)	—	—	—	—	(444,701)
NET CURRENT ASSETS/ (LIABILITIES)	(305,152)	5,192	(1,000)	—	223,125	(77,835)

	The Group as at 30 June 2007	The Target as at 31 December 2007 (Note 1)	Pro forma adjustment (Note 2)	Pro forma adjustment (Note 3 and 4)	Pro forma adjustment (Note 5)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
NON-CURRENT LIABILITIES						
Trade payables	(33,679)	—	—	—	—	(33,679)
Convertible bonds	(63,959)	—	—	—	—	(63,959)
Obligations under finance leases and hire purchase contracts	(274)	—	—	—	—	(274)
Other borrowings	(110,000)	—	—	—	—	(110,000)
Preference shares dividend payable	(94,600)	—	—	—	—	(94,600)
Bank borrowings	—	—	—	—	—	—
Tax payable	(108,852)	—	—	—	—	(108,852)
Amount due to shareholders	—	—	(10,379)	—	—	(10,379)
Amount due to joint venture investor	—	—	—	—	(223,125)	(223,125)
	(411,364)	—	(10,379)	—	(223,125)	(644,868)
NET ASSETS/(LIABILITIES)	35,609	5,192	—	(11,379)	—	29,422
CAPITAL AND RESERVES						
Share capital	272	5,208	—	(5,208)	—	272
Share premium	20,773	—	—	—	—	20,773
Contribution surplus	4,755	—	—	—	—	4,755
Translation reserve	7,758	—	—	—	—	7,758
Preferred dividend	(94,600)	—	—	—	—	(94,600)
Profit/(Loss) for the period	325,137	(5)	—	(8,731)	—	316,401
Retained profits/(Accumulated losses)	(228,486)	(11)	—	16	—	(228,481)
MINORITY INTERESTS						
Amount due to minority shareholders	—	—	—	2,544	—	2,544
	35,609	5,192	—	(11,379)	—	29,422

Note:

(1) For the purposes of this unaudited pro forma consolidated balance sheet, the audited balance sheet of the Target as at 31 December 2007 as set out in Appendix II of this Circular, which are denominated in RMB, has been translated into HK dollars at the prevailing exchange rate of HK$1.00 to RMB0.96 as at 31 December 2007.

(2) (i) Under the Memorandum of Cooperation, the consideration of the Sale Equity Interest was agreed RMB10,924,000 (equivalent to approximately HK$11,379,000). Pursuant to the agreement dated 15 August 2007, the Company paid the deposit in the sum of HK$1,000,000 to the Vendor on 12 September 2007.

(ii) Regarding to the outstanding amount of the Consideration, the Company may request to enter into the Tenancy Agreement with a subsidiary of the Vendor for setting off all the outstanding amount of the Consideration other than the deposit paid against the rental payable. The monthly rent will be RMB300 (equivalent to approximately HK$312.5) per square meter, there will be 2 months of rent free period for the first year and 3 months of rent free period each year from the second year onwards. Based on the total area of 832.61 square meters of the rental property, the total yearly rental payable for the first year will be approximately RMB2,498,000 (equivalent to approximately HK$2,602,000) and for the second year onwards will be approximately RMB2,248,000 (equivalent to approximately HK$2,341,000). The tenancy agreement will be entered for 3 years and it is expected that such rental payable over a period of about 5 years will be used to set off all the outstanding Consideration.

(3) Under the Memorandum of Cooperation, the consideration of the Sale Equity Interest was agreed RMB10,924,000 (equivalent to approximately HK$11,379,000). The Target has a registered capital of RMB5,000,000 (equivalent to approximately HK$5,208,000) and the net asset value of RMB4,984,000 (equivalent to approximately HK$5,192,000). The 51% of the net asset value of the Target is RMB2,542,000 (equivalent to approximately HK$2,648,000). The Consideration was determined on the basis of applying a premium of about RMB8,382,000 (equivalent to approximately HK$8,731,000) to 51% of the net asset value of the Target. Accordingly, this pro forma adjustment represents the goodwill arose thereof. Pursuant to HKFRS 3, goodwill from business combination should be tested by its impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, in accordance with HKAS 36. However, the directors believed that it is more appropriate to immediately write off the whole amount of goodwill, it is not prohibited under HKFRS, rather than test by its impairment annually. The basis of this treatments is that target is dormant and carry no business since its incorporation. As the goodwill did not contribute any future economic benefits the directors are therefore write off such amount immediately under prudence concept.

(4) (i) The adjustment of approximately RMB10,924,000 (equivalent to HK$11,379,000) represented the elimination of the cost of investment in subsidiary in preparing the consolidated financial statement of the Group.

(ii) Goodwill of approximately RMB8,382,000 (equivalent to HK$8,731,000) arising from the Acquisition of the Target was derived from the consideration of approximately RMB10,924,000 (equivalent to HK$11,379,000) less the 51% of the net assets of the Target of approximately RMB2,542,000 (equivalent to HK$2,648,000).

(iii) The adjustment of approximately RMB5,000,000 (equivalent to HK$5,208,000) represented the elimination of the share capital of the Target.

(iv) The adjustment of approximately RMB15,000 (equivalent to HK$16,000) represented the elimination of the pre-acquisition loss of the Target.

(v) The adjustment of approximately RMB2,442,000 (equivalent to HK$2,544,000) represented the Minority interest of the Target, which is 49% of interest in registered capital after deduction of pre-acquisition loss of the Target.

(5) Under the Agreement, upon payment of the deposit to the Vendor for the consideration of the Sale Equity Interest of the Target, the Vendor shall transfer the Land to the Target. Valuation of the Land had been made by two property valuers. The valuation made by the Vendor's Property Valuer on 6 August 2007 by the methods of net valuation and market comparison is RMB242,650,000 (equivalent to approximately HK$252,760,000) whereas that made by the property valuer appointed by the Company, Asset Appraisal Limited, on 12 November 2007 is RMB230,000,000 (equivalent to approximately HK$239,583,000) by comparison method on the basis that the valuation represents the market value which means the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. The property valuer of the Company had provided the valuation of the Land and the draft Valuation Report to the Company before the entering into of the Memorandum of Cooperation. They only issued the formal Valuation Report on 12 November 2007 which is substantially the same as the draft previously provided. In particular, the valuation of the Land is the same. Based on those valuations and by the Memorandum of Cooperation, the Parties reached an agreed valuation of the Land at RMB238,000,000 (equivalent to approximately HK$247,917,000), and by adopting a 10% agreed discount after commercial negotiation, the Land Consideration is agreed as RMB214,200,000 (equivalent to approximately HK$223,125,000). It is intended that a building complex will be built on the Land, which will consist of a commercial complex at the lower part and residential apartments at the upper part. The Land will be treated as current assets of the Group. It is intended that the commercial complex and the residential apartments will be disposed of after completion of construction.

(6) The Land consideration shall be settled as follows:

(i) Upon the relevant authorities approving the borrowing of foreign loan by the Target, the Company shall issue 54,000,000 shares at a price of HK$0.27 each to the Vendor in partial settlement of the Land Consideration and the Target shall owe an amount of HK$14,580,000 to the Company;

(ii) Under the Memorandum of Cooperation that upon completion of the construction of the commercial part of the Land, the Vendor shall grant a buy back option for about 30,000 square meters commercial part at a price of RMB9,000 (equivalent to approximately HK$9,375) per square meter. The total aggregate consideration payable by the Vendor upon full exercise of the Buy Back Option will be about RMB270,000,000 (equivalent to approximately HK$281,250,000). The Vendor shall have the discretionary power to exercise the Buy Back Option. The consideration payable by the Vendor will be set off by any outstanding Land Consideration. Any consideration payable by the Vendor under the Buy Back Option not utilized for such setting off will be paid by the Vendor to the Target, which will be used as the operating cash for future development of the Target. No adjustment have been made to reflect any trading result or other transactions of the Group in relation to the Buy Back Option.

(iii) The Target shall use any future surplus cash as cash payment for settlement of any outstanding Land consideration payable by it.

3. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE GROUP

	The Group Year ended 31 December 2006	The Target Year ended 31 December 2006 *(Note 1)*	Pro forma adjustment *(Note 2)*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Operating activities				
Loss before taxation	(32,909)	(2)	—	(32,911)
Adjustments for:				
Depreciation of property, plant and equipment	764	—	—	764
Reversal of impairment loss recognised in respect of other receivables	(1,495)	—	—	(1,495)
Interest expenses	(2)	—	—	(2)
Finance Costs	10,473	—	—	10,473
Operating cash flows before movements in working capital	(23,169)	(2)	—	(23,171)
Increase in properties for sale-under development	(11,259)	—	—	(11,259)
Decrease in other receivables, Deposit and prepayments	7,046	—	—	7,046
Decrease in accounts payable	(116,566)	—	—	(116,566)
Decrease in other payables & accrued expenses	(948)	—	—	(948)
Increase in advances from a customer	175,976	—	—	175,976
Increase in cash injection from new project company	—	—	(1,000)	(1,000)
Decrease in amount due from fellow subsidiaries	—	(4)	—	(4)
Decrease in amount due to a shareholder	—	7	—	7
Cash generated from operations	31,080	1	(1,000)	30,081
Interest Paid	(19,031)	—	—	(19,031)
NET CASH FROM /(USED IN) OPERATING ACTIVITIES	12,049	1	(1,000)	11,050

	The Group Year ended 31 December 2006	The Target Year ended 31 December 2006 *(Note 1)*	Pro forma adjustment *(Note 2)*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(116)	—	—	(116)
Interest received	2	—	—	2
NET CASH USED IN INVESTING ACTIVITIES	(114)	—	—	(114)
FINANCING ACTIVITIES				
Repayment of bank borrowings	(80,000)	—	—	(80,000)
Proceeds from other borrowings	30,000	—	—	30,000
Repayment of other borrowings	(30,000)	—	—	(30,000)
Repayment of obligations under finance leases	(47)	—	—	(47)
NET CASH USED IN FINANCING ACTIVITIES	(80,047)	—	—	(80,047)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(68,112)	1	(1,000)	(69,111)
Exchange difference	6,292	—	—	6,292
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	125,904	104	—	126,008
CASH AND CASH EQUIVALENTS, END OF YEAR	64,084	105	(1,000)	63,189

Notes:

(1) For the purposes of this unaudited pro forma consolidated cash flow statement, the audited cash flow statement of the Target for the year ended 31 December 2006 as set out in Appendix II of this Circular, which are denominated in RMB, has been translated into HK dollars at the prevailing average exchange rate of HK$1.00 to RMB0.96 during the year ended 31 December 2006.

(2) Under the Memorandum of Cooperation, the consideration of the Sale Equity Interest was agreed RMB10,924,000 (equivalent to approximately HK$11,379,000). Pursuant to the agreement dated 15 August 2007, the Company paid the deposit in the sum of HK$1,000,000 to the Vendor on 12 September 2007. This pro forma adjustment will not have continuing effect on the cash flows statement of the enlarged group.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

Directors's interests and short position in Shares and underlying shares

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code on Securities Transactions by Directors of Listed Companies were as follows:

Name of director	Capacity	Number of issued Shares held	Percentage of the issued share capital of the Company
Han Junran (“Mr. Han”)	Beneficial owner *(Note 1)*	13,587,900	5%

Note:

(1) Pursuant to a share charge entered into between New Rank Groups Limited (“NRG”), a wholly-owned subsidiary of Silver World Limited which is, in turn, wholly-owned by Royal Bank of Canada Trust Company (Cayman) Limited (“Royal Bank Trustee”), and Mr. Han as chargors and Starry Joy Properties Investment Ltd. (“Starry Joy”), a wholly-owned subsidiary of Poly (Hong Kong) Investments Limited (“Poly HK”), as chargee dated 23 June 2003, among other things, Mr. Han charged his interest 5% of the issued share capital of the Company, representing 13,587,900 shares of the Company, in favour of Starry Joy.

Pursuant to the New City Guarantee, Mr. Han pledged his interest in 5% of the issued share capital of the Company, representing 13,587,900 shares of the Company, in favour of Poly Corporation.

Save as disclosed above:

(i) as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies;

(ii) as at the Latest Practicable Date, none of the Directors had any interest in any assets which have been, since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up, acquired, disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and

(iii) there is no contract or arrangement subsisting at the date of this circular in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

Substantial Shareholders' and other person's interest in Shares and underlying shares

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO, and so far as was known to the Directors or the Company, the following persons, other than a Director or chief executive of the Company had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of

Part XV of the SFO or, who was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:—

(i) Interests in the shares of the Company

Name of shareholder	Capacity	Number of issued Shares held (long position (L)/ short position (S))	Percentage of the issued share capital of the Company
Poly HK	Person having a security interest in shares *(Notes 1 and 5)*	67,939,500 (L)	25%
NRG	Beneficial owner *(Notes 1 and 2)*	54,351,600 (L)	20%
Silver World Limited	*(Note 2)*	54,351,600 (L)	20%
Royal Bank Trustee	*(Note 3)*	54,351,600 (L)	20%
Wei Ping	Beneficial owner	47,032,000 (L)	17.31%
Lu Shu Guang	*(Note 4)*	13,587,900 (L)	5%

(ii) Substantial shareholders of other members of the Group

Name of subsidiary	Name of substantial shareholder	Percentage of the issued share capital
Tong Sun	New Rank (BVI 2) Limited	51%
Tong Sun	Starry Joy	49%
Zhong Zheng	Tong Sun	66%
Zhong Zheng	Guozheng	34%

Notes:

(1) Pursuant to a share charge entered into between NRG and Mr. Han as chargors and Starry Joy, a wholly-owned subsidiary of Poly HK, as chargee dated 23 June 2003, NRG and Mr. Han charged their respective interests in 20% and 5% of the issued share capital of the Company, representing 54,351,600 shares and 13,587,900 shares of the Company respectively, in favour of Starry Joy. By virtue of its shareholding in Starry Joy, Poly HK is deemed to be interested in 67,939,500 shares of the Company under the SFO.

(2) NRG is a wholly-owned subsidiary of Silver World Limited which is, in turn, wholly-owned by Royal Bank Trustee.

(3) Royal Bank Trustee is the trustee of a discretionary trust called New Rank Trust. The beneficiaries of the New Rank Trust include a holding company and its wholly-owned subsidiary and certain relatives of Mr. Leung Kwo and Ms. Lau Shun, wife of Mr. Leung Kwo, provided that such individuals are not residents of Canada of tax purpose nor residents of the PRC. The holding company is wholly-owned by another discretionary trust called Hold Trust. The beneficiaries under the Hold Trust include the lineal descendants (together with their spouses) of every degree of consanguinity of the paternal grandfather and maternal grandfather of each of Mr. Leung Kwo and Ms. Lau Shun provided that they are not residents of Canada for tax purposes nor residents of the PRC.

(4) Ms. Lu Shu Guang is the spouse of Mr. Han, a Director and Chairman of the Company. Ms. Lu is deemed interested in the 13,587,900 shares of the Company held by Mr. Han under the SFO.

(5) Pursuant to the New City Guarantee, Mr. Leung Kwo and Mr. Han respectively pledged their respective interests in 20% and 5% of the issued share capital of the Company, representing 54,351,600 shares and 13,587,900 shares of the Company respectively, in favour of Poly Corporation.

(6) Pursuant to the New City Guarantee, the Company pledged its 51% interest in Tong Sun, in favour of Poly Corporation.

(7) Starry Joy holds 49% interest in Tong Sun. By virtue of its wholly ownership of Starry Joy, Poly HK is deemed to be interested in 49% interest in Tong Sun under the SFO.

Save as disclosed above, the Directors and chief executive of the Company were not aware of any persons, as at the Latest Practicable Date, who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 Part XV of the SFO or, who was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

3. EXPERT

(a) The following are the qualifications of the experts who have given opinion or advice contained in this circular :—

Name	**Qualification**
Asset Appraisal Limited	Chartered Surveyors
Parker Randall CF (H.K.) CPA Limited	Certified Public Accountants

(b) None of the above experts have any shareholding in any member of the Group nor do they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

4. COMPETING INTEREST

None of the Directors and their respective associates have any interests in a business or are interested in any business which competes or may compete either directly or indirectly with, or is similar to, the business of the Group as at the Latest Practicable Date.

5. SHARE CAPITAL

Authorized and issued share capital

The authorized and issued share capital of the Company as at the Latest Practicable Date were as follows :—

	HK$
Authorized:	
902,591,333 Shares of HK$0.001 each	902,591
Issued and fully paid up or credited as fully paid up:	
271,758,000 Shares of HK$0.001 each	271,758

All existing Shares rank equally in all respects, including in particular as to dividend, voting rights and return on capital. The Shares in issue are listed on the Stock Exchange.

No Share has been issued since 31 December 2006, the date to which the latest audited financial statements of the Group were made up.

6. LITIGATION

The following set out the litigation or arbitration, which may be material importance, pending or threatened by or against the Company or any of its subsidiaries as at the Latest Practicable Date:—

On 19 January 2006, the Beijing Arbitration Committee made an arbitration award in favour of Beijing Tai Yang Hong, an Independent Third Party, that 12th Floor Agreement be cancelled and that the sum of RMB14,371,191 (equivalent to approximately HK$14,371,191) being refund of the purchase price paid and RMB800,000 (equivalent to approximately HK$800,000) being damages be paid by Zhong Zheng to Beijing Tai Yang Hong. Zhong Zheng has applied to the people's court in Beijing for stay of enforcement of such award and has been advised by independent qualified PRC legal advisers, Beijing Zhong-pu Law Firm (北京市中普律師事務所) that it has grounds to challenge such award. The court is expected to have a ruling in around one year's time during which time the award cannot be enforced.

Pursuant to the 12th Floor Agreement, Beijing Tai Yang Hong intended to purchase the entire 12th floor of China Securities Plaza at the purchase price of RMB14,371,191 (equivalent to approximately HK$14,371,191). According to the 12th Floor Agreement, the consideration was to be paid to Zhong Zheng by Beijing New Rank Real Estate Development Co., Limited (a wholly-owned subsidiary of New Rank (BVI 1) Limited) which had received such amount from Beijing Tai Yang Hong under a separate agreement dated 29 May 2003 entered into between Beijing Tai Yang Hong and Beijing New Rank Real Estate Development Co., Limited with an intention to cancel an agreement for sales of property from Beijing New Rank Real Estate Development Co., Limited to Beijing Tai Yang Hong and Beijing New Rank Real Estate Development Co., Limited was required to transfer the proceeds from Beijing Tai Yang Hong to Zhong Zheng as consideration of the 12th Floor Agreement. New Rank (BVI 1) Limited was then a wholly-owned subsidiary of the Company but has ceased to be so and become Independent Third Party of the Company and its connected person under the Listing Rules since September 2004 following a disposal of the Company's entire interests in New Rank (BVI 1) Limited. In fact, Zhong Zheng has not received any payment from Beijing New Rank Real Estate Development Co., Limited, although as the Company understands it, Beijing New Rank Real Estate Development Co., Limited has received such payment from Beijing Tai Yang Hong. It was alleged by Beijing Tai Yang Hong that Zhong Zheng had not performed the 12th Floor Agreement by signing and registering a commodity house sale and purchase contract and Zhong Zheng disputed, inter alia, that the 12th Floor Agreement was void at the outset under the PRC laws. Beijing Tai Yang Hong referred the matter to arbitration by the Beijing Arbitration Committee to seek cancellation of the 12th Floor Agreement and claim for refund of the purchase price and damages in May 2005. Zhong Zheng contested the claim based on, inter alia, the invalidity of the 12th Floor Agreement and the fact that since Zhong Zheng had never received payment of the purchase price from Beijing New Rank Real Estate Development Co., Limited as provided in the 12th Floor Agreement, Beijing Tai Yang Hong should not be entitled to claim refund of the purchase price in any event.

Since the 12th Floor Agreement should be non-legally binding as it was not signed according to the PRC laws, it should not constitute any notifiable transaction under the Listing Rules or price sensitive information warranting a formal announcement. Zhong Zheng believed that it had good defence to the arbitration aforesaid. Therefore, the Company has not previously made any announcement of the 12th Floor Agreement or the arbitration aforesaid.

In view of the pending proceedings for a stay of enforcement of the arbitration award, the financial impact of the arbitration award on the Company cannot be ascertained at this moment. Further announcement will be made by the Company on any material progress and development of the proceedings.

Save as aforesaid, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance or is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries as at the Latest Practicable Date.

7. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest audited financial statements of the Group were made up.

8. SERVICE CONTRACTS

Mr. Han, the Chairman and executive Director, has entered into a service agreement dated 16 December 2002 with the Company for a period of three years and continuing thereafter until his directorship terminated. As detailed in the circular of the Company dated 26 June 2006, Mr. Han also has entered into a management agreement dated 25 October 2005 with the Company for a term of 3 years commencing from 1 April 2005. The total amount of the current annual remuneration of Mr. Han is HK$1,950,000, which is fixed remuneration. Mr. Han is also entitled to management bonus to be determined at the absolute discretion of the Board.

Mr. Fu Yiu Kwong, the executive Director, has entered into a service agreement dated 1 April 2004 with the Company for a period of two years commencing 13 March 2003 and continuing thereafter on a yearly basis until terminated by either party giving to the other not less than six months' notice. The total amount of the current annual remuneration of Mr. Fu is HK$1,040,000, which is fixed remuneration. Mr. Fu is also entitled to management bonus to be determined at the absolute discretion of the Board.

There are no service contracts between the independent non-executive Directors and the Group. Their term of office is the period to their retirement by rotation in accordance with the Company's articles of association.

Save as disclosed above, there are no service contracts between any of the Directors and the Group or and associated company of the Company (1) which have been entered into or amended within 6 months before the date of the Announcement; (2) which are continuous contracts with a notice period of 12 months or more; or (3) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

9. CONSENT

The Property Valuer has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinion and references to its name in the form and context in which it appears.

10. MATERIAL CONTRACTS

Save as disclosed below, the Company or its subsidiaries had not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the Latest Practicable Date:—

1. a subscription agreement dated 23 February 2007 entered into by the Company and Crown Champion for two convertible bonds in the principal amounts of up to HK$40,000,000 and HK$23,055,000 respectively to be issued by the Company;

2. a subscription agreement dated 23 February 2007 entered into by the Company and Crown Champion for convertible bond(s) up to an aggregate principal amount of RMB24,000,000 to be issued by the Company;

3. a loan facility agreement dated 23 February 2007 entered into by the Company and Crown Champion;

4. a share mortgage dated 23 February 2007 entered into by the Company in favour of Crown Champion in respect of all the issued shares in NR (BVI) Holdings Limited;

5. a share mortgage dated 23 February 2007 entered into by NR (BVI) Holdings Limited in favour of Crown Champion in respect of all the issued shares in New Rank (BVI 2) Limited;

6. a further supplemental agreement dated 23 February 2007 supplemental to a loan agreement dated 20 December 2006 entered into by the Company and Crown Champion;

7. the Agreement as supplemented by the Memorandum of Cooperation; and

8. the New Subscription Agreement

11. RIGHT TO DEMAND A POLL

Pursuant to the Listing Rules, any vote taken at a meeting held to seek approval of a connected transaction must be taken by poll. Accordingly, the resolutions to be proposed at the EGM in respect of the Agreement, the making of the Offer, and the Acquisition shall be decided on poll. Set out below is the procedure by which the Shareholders may demand a poll pursuant to the constitutional document of the Company.

Pursuant to Article 66 of the articles of association of the Company, at any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is required under the Listing Rules, or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of such meeting; or

(b) by at least three members present in person or in the case a member being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or

(c) by a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(d) by a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or

(e) if required by the rules of the designated stock exchange, by any director or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at such meeting.

12. GENERAL

(a) The registered office of the Company is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. Its principal place of business in Hong Kong is Units 2804-06, 28/F, Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong.

(b) The branch share registrar and transfer office of the Company in Hong Kong is Union Registrars Limited, Room 1901-1902, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

(c) As at the date of this circular, the Board comprised Mr. Han Junran (Chairman and executive Director), Mr. Fu Yiu Kwong (executive Director), Mr. Chan Yiu Tung Anthony (independent non-executive Director), Mr. Wong Shing Kay Oliver (independent non-executive Director), and Mr. Zheng Qing (independent non-executive Director).

(d) The secretary of the Company is Mr. Seto Man Fai.

(e) The qualified accountant of the Company is Ms. Wong Wai Ting, a member of the Hong Kong Institute of Certified Public Accountants.

(f) The English text of this circular shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the Company's principal place of business in Hong Kong from the date of this circular up to and including 18 March 2008 and at the EGM:

(a) the memorandum and articles of association of the Company;

(b) the material contracts referred to in paragraph 7 headed "Material Contracts" in this Appendix;

(c) the service contracts referred to in paragraph 8 headed "Service Contracts" in this Appendix;

(d) the annual reports of the Group for each of the financial years ended 31 December 2004, 2005 and 2006;

(e) the unaudited interim results of the Group for the six months ended 30 June 2007;

(f) the Valuation Report;

(g) this circular.

NEW CITY (CHINA) DEVELOPMENT LIMITED
新城市（中國）建設有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0456)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "EGM") of New City (China) Development Limited (the "Company") will be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on 18 March 2008 at 3:00 p.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

(1) "**THAT**:

(a) the agreement (the "Agreement") dated 15 August 2007 as supplemented by a memorandum of cooperation (the "Memorandum of Cooperation") dated 12 September 2007 entered into between the Company and 秦皇島市海洋置業有限公司 (Qin Huang Dao City Ocean Realty Company Limited#) (the "Vendor") relating to the sale and purchase of 51% of the total equity interest in 秦皇島海洋西嶺房地產開發有限公司 (Qin Huang Dao Ocean West Hill Real Property Development Company Limited#), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) the directors of the Company (the "Directors") be and are hereby authorised to do all acts and execute all documents they consider necessary or expedient to give effect to the transactions contemplated under the Agreement as supplemented by the Memorandum of Cooperation."

(2) “**THAT**:

(a) the terms of the convertible bond issued by the Company on 1 March 2005 in the principal amount of HK$12,000,000 (“2005 Convertible Bond”) in favour of Tritime Holdings Limited (“Tritime”) be amended such that

(i) an amount of HK$7,500,520 out of the principal thereof be convertible into shares of the Company (“Shares”) at a revised conversion price of HK$0.138 per Share (“Amended 2005 Convertible Bond”);

(ii) the remaining amount of HK$5,219,480 out of the principal thereof be terminated;

(iii) the Amended 2005 Convertible Bond shall bear interest at the prime lending rate from time to time quoted by the Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollar deposits from 1 March 2007 onwards; and

(iv) the maturity date of the Amended 2005 Convertible Bond be extended to 28 February 2009; and

(b) the Directors be and are hereby authorised to do all acts and execute all documents they consider necessary or expedient to give effect to such amendments.”

(3) “**THAT**:

(a) the issue of the convertible bond in the principal amount of HK$5,304,297 (“New Convertible Bond”) as described under a subscription agreement dated 21 August 2007 (“New Subscription Agreement”) entered into by the Company and Tritime, the allotment and issue of the Shares convertible from the New Convertible Bond as described under the New Subscription Agreement upon the exercise of the conversion rights attaching thereto be and is hereby approved;

(b) the issue of the certificate in respect of the New Convertible Bond pursuant to and upon the terms and subject to the conditions in the New Subscription Agreement be and is hereby approved;

(c) all transactions as may be contemplated under the New Subscription Agreement be and is hereby approved; and

(d) the Directors be and are hereby authorized to do all things and acts and sign all documents which they consider desirable or expedient to implement and/or give effect to any matters relating to or in connection with the issue of the New Convertible Bond and New Conversion Shares as described in New Subscription Agreement."

(4) "**THAT**:

(a) the terms of the convertible bonds issued by the Company on 14 June 2007 and 28 June 2007 respectively in the principal amounts of HK$33,403,150 and HK$23,055,000 respectively ("2007 Convertible Bonds") in favour of Crown Champion Investments Limited be amended such that the maturity dates of the 2007 Convertible Bonds be extended to 28 February 2009; and

(b) the Directors be and are hereby authorised to do all acts and execute all documents they consider necessary or expedient to give effect to such amendments."

(5) "**THAT** the authorized share capital of the Company be increased from HK$902,591.333 divided into 902,591,333 Share of HK$0.001 each to HK$2,000,000 divided into 2,000,000,000 Shares by creation of additional 1,097,408,667 Shares of HK$0.001 each and that the Directors be and are hereby authorized to do all things and acts and sign all documents which they consider desirable or expedient to implement and/or give effect to such increase."

By Order of the Board
New City (China) Development Limited
Seto Man Fai
Company Secretary

Hong Kong, 29 February 2008

#: *an unofficial English transliteration on translation for identification purposes only*

Notes:

(1) Any member entitled to attend and vote at the EGM of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM. A proxy need not be a member. A proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(2) Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding. Several executors or administrators of a deceased member in whose name any share stands shall be deemed joint holders thereof.

(3) A form of proxy for use at the EGM is enclosed herewith.

(4) The form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney must be lodged at the Company's Hong Kong branch share registrar, Union Registrars Limited, Rooms 1901-1902, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or adjourned meeting or not less than 24 hours before the time appointed for taking the poll (as the case may be) and in default the form of proxy shall not be treated as valid. Completion and return of the form of proxy shall not preclude members from attending and voting in person at the EGM or at any adjourned meeting (as the case may be) should they so wish.